



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

February 20, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**North State National Bank
Charter Number 17216**

**525 Salem Street
Chico, CA 95928**

**Comptroller of the Currency
Western District
San Francisco Field Office
50 Fremont Street, Suite 3900
San Francisco, CA 94105**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of North State National Bank, prepared by The Office of the Comptroller of the Currency, as of **February 20, 2002**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

INSTITUTION'S CRA RATING: This institution is rated SATISFACTORY.

North State National Bank (NSNB) satisfactorily meets the credit needs of its assessment area, including low- and moderate-income areas, consistent with its resources and capabilities. The following supports this rating:

- The bank has a reasonable loan-to-deposit ratio.
- The bank's lending in the assessment area exceeds the standard for satisfactory performance. A majority of its loans are within its assessment area.
- The bank's distribution of loans to businesses of different sizes reflects, given the demographics of the assessment areas, reasonable penetration among businesses of different sizes. The majority of the bank's loans are to businesses with less than \$1 million in revenues, which confirms the bank's commitment to small businesses.
- The bank's geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.

DESCRIPTION OF INSTITUTION

North State National Bank (NSNB) is an independently owned full-service commercial banking institution headquartered in Chico, California. The bank, established in 1982, provides general banking services through its headquarters office and one branch in the northern section of Chico. ATM services are available at each location. As of December 31, 2001, NSNB had total assets of \$129 million with \$73 million in loans, which represents 56% of the banks net loans to total assets.

NSNB's corporate structure has not changed. The bank focuses its lending activity to commercial real estate and business loans, although consumer and other products are also available.

There are no legal or financial circumstances impeding the bank's ability to help meet the credit needs of the community. The bank's CRA performance was previously evaluated in June 9, 1997 and found to be "**Satisfactory**".

Types of Loans Outstanding

Loan Type	\$(000's)	Percent
Real Estate Loans	41,397	56%
Commercial Loans	13,950	19%
Agricultural & Farm Loans	11,718	16%
Construction Loans	5,392	7%
Other Loans	1,090	2%
Total	73,547	100%

Source: 12/31/01 Report of Condition

DESCRIPTION OF NSNB'S ASSESSMENT AREA

The bank's assessment area is the Greater Chico Urban Area and surrounding rural areas. Census tracts 1 through 15 of the Chico Metropolitan Statistical Area (MSA) represent it. The bank considers the entire MSA too large to reasonably serve with only two offices and two ATM's. The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low or moderate income areas.

The city of Chico is located in Butte County, CA. It is the largest city in the county, accounting for approximately 30% of the county's total population and serves as a regional service and retail center for the surrounding area and is the largest retail service center north of Sacramento. Chico has a growing population. California State Census Data Center, Census 2000 shows the city has had a 10-year growth rate (1990 - 2000) of 4.9%, the fastest of any city in the county. Major employers are California State University at Chico (Chico State), Enloe Medical Center, Butte Community College, and Chico Unified School District.

The following table shows the demographics of the assessment area:

Demographic Information for NSNB's Assessment Area: Chico Metropolitan Statistical Area (MSA)						
Demographic Characteristics by Number	#	Low	Moderate	Middle	Upper	NA *
Geographies (Census Tract #)	16	0	3	6	7	0
Demographic Characteristics by %	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tract %)	16	0.00	18.75	37.50	43.75	0.00
Population by Geography	83,206	0.00	14.80	42.56	42.63	0.00
Owner-Occupied Housing by Geography	15,653	0.00	9.10	39.29	51.61	0.00
Business by Geography	4,763	0.00	20.83	42.39	36.78	0.00
Farms by Geography	364	0.00	8.52	20.60	70.88	0.00
Family Distribution by Income Level	18,602	18.05	15.65	19.91	46.39	0.00
Non Farm Businesses (revenues less than \$1 million)	4,221	0.00	20.37	43.02	36.60	0.00
Farms (revenues less than \$1 million)	302	0.00	8.28	21.19	70.53	0.00
Distribution of Low Income Families in AA	3,358	0.00%	37.62%	18.96%	12.45%	0.00
Distribution of Moderate Income Families in AA	2,911	0.00%	21.47%	16.61%	13.42%	0.00
Median Family Income		28,314	Median Housing Value		110,169	
<i>Updated HUD Adjusted Median Family Income for 2001</i>		38,500	Unemployment Rate (1990 US Census)		3.74%	
Households Below Poverty Level		20.08%				

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 1990 U.S. Census and 2001 HUD updated MFI.

The total population of the assessment area is 83,206. Although there are no low-income census tracts in the assessment area, 18.05% of the families within the assessment area are low income. The majority of businesses and farms are located in middle and upper census tracts. Owner occupied housing represents 46% of all housing units in the assessment area. Only 9% of the owner occupied units are located in moderate-income census tracts reflecting a low rate of home ownership in these tracts. According to the *Chico 2001 Economic Profile*, the average home price is \$183,201. This has created an affordability problem because incomes in the area are relatively low, partly because of students with low incomes as well as low incomes from retirees in the Chico area.

According to the *2001 Butte County Economic Development Corporation Profile*, Butte County's 2000 average annual unemployment rate was 6.8% and has steadily declined since 1993. However the rate is 1.3% higher than the state rate of 5.5% and 2.6% higher than the federal rate of 4.2%.

The area's economic base is diverse. *The Chico 2001 Economic Profile* indicates services, government, and retail trade sectors are the primary industries in the area. Government includes federal, state and local government, including education. Trade includes merchandise stores, food stores and restaurants as well as wholesales businesses. Service includes health services, hotels and lodging places.

Over the years 1996 - 2000, the area experienced growth in the services and government industries, specifically education and local government. These industries along with retail trade accounted for approximately 71% of the areas total employment. Within the services industry, recent growth has concentrated in the health services and social services components. Population growth has sparked sharp growth in retail sales. The long-term demographic trends indicate continued strong retail growth. The agriculture industry is also a vital factor in the area's economic success. There are a variety of crops including rice, almonds, walnuts, prunes, peaches and kiwi fruit.

Competition is brisk with 11 financial institutions headquartered or with branches in the assessment area. These institutions consist of Non-Banks and Credit Unions, branches of multinational and regional banks, and local community banks. NSNB is one of the smallest banks headquartered within its assessment area. As of June 2001, NSNB had 5.42% of the market's deposits, ranking 7th out of 12 institutions. The competing institutions include, in part, Bank of America, Washington Mutual, Tri Counties Bank, Wells Fargo Bank, World Savings Bank, Tehama Bank and Butte Community Bank. We selected three of these banks for comparison purposes. Although larger in asset size, the banks are similarly situated with respect to location, types of services and market share.

During the examination we made three community contacts with a local government representative and representatives of two community development corporations. The representatives believe there is a need for small business lending and affordable housing.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Scope of Examination:

We evaluated the bank's performance based on loans originated from June 10, 1997, through December 31, 2001. We focused our evaluation on the bank's primary product lines: commercial loans and commercial real estate loans, originated since the last CRA exam. We randomly selected 40 loans for our sample: 20 commercial and 20 commercial real estate. We used the sampled loans to review the bank's lending in its assessment area, its geographic and income distribution of loans, and its overall CRA performance. Home mortgage and agricultural loan products were not selected in our sample since the bank is not a major mortgage or agricultural lender in this market

Loan-to-Deposit Ratio

NSNB's quarterly average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the assessment area credit needs. Since the last exam, the bank's quarterly ratio averaged 62% over the last 17 quarters ended September 30, 2001. In comparing the bank's ratio to its peer group, the quarterly average ratio of similarly situated peer banks in its assessment area ranged from 72% to 82%. At the last examination, NSNB's 8-quarter loan-to-deposit ratio average was 50% and their peer group's loan-to deposit ratio average ranged from 66% to 81%. While the peer groups loan-to-deposit ratio remain somewhat static, NSNB's increased. For purposes of this examination, we considered similarly situated banks to mean banks located in the same MSA that offered similar products and services.

MSA: Chico-Paradise, CA	Total Assets 9/30/01	Branches In MSA	Branches Outside MSA	Market Share As of June 30, 2001
NORTH STATE NATIONAL BANK	126,308	2	0	5.42
COMPARISON BANK 1	994,286	8	31	12.18
COMPARISON BANK 2	260,257	5	1	10.01
COMPARISON BANK 3	266,365	1	5	2.26

Source: FDIC Market Share Report & 9/30/01 Report of Condition

The table above compares NSNB's size and deposit share with the three comparisons banks within the Chico-Paradise MSA. NSNB is the smallest bank by asset size, has the fewest branches and 5.42% of the total deposits of the MSA. The other banks are larger, offer a wider range of products and have more total branches. NSNB's strategy is to aggressively develop and maintain deposit relationships with its borrowers and this also contributes to the lower ratio. Taking these factors into account, the bank's loan-to-deposit ratio is reasonable.

Lending in Assessment Area

The bank's lending in the assessment area exceeds the standard for satisfactory performance.

Lending Within Assessment Area (AA)

Primary Loan Product	Total # of Loans Sampled	# of Loans in AA	% of Number in AA	Total Dollar of Loans Sampled	Dollar Volume of Loans in AA	% of Dollar Volume in AA
Commercial	20	18	90%	\$3,944,218	\$3,872,440	98%
Commercial RE	20	18	90%	\$5,835,664	\$4,800,664	82%
Totals	40	36	90%	\$9,779,882	\$8,673,104	89%

Source: Sample of 40 loans originated from June 10, 1997 to December 31, 2001

A substantial majority of the bank's loans and other lending-related activities are made to customers who reside within the bank's designated assessment area. We sampled 40 loans since the last CRA examination focusing on the bank's primary loan products. Of the 40 sampled, the percentage of loans originated by number and dollar amount to borrowers located within the assessment area are 90% and 89%, respectively.

(In the next two sections, the bank's primary product lines; commercial and commercial real estate loans, were grouped under the title "business loans" to evaluate the bank's performance.)

Lending to Businesses of Different Sizes

The bank's distribution of loans to businesses of different sizes reflects, given the demographics of the assessment areas, reasonable penetration among businesses of different sizes.

Business Loans

The bank's distribution of loans to businesses with revenues of \$1 million or less is good. Based on our sample, the bank originated 31 loans or 77.50% of the number of loans to businesses with revenues of less than \$1 million, since the last CRA examination. This percentage meets the area demographics. The bank's loan penetration of dollar volume meets the area demographics as well. Our sample showed that 81% of the total dollars loaned were to businesses with revenues under \$1 million. This confirms the bank's commitment to meeting the community credit needs of businesses with revenues less than \$1 million as well as those summarized by the community contacts under the description of the assessment area. Refer to the table below for details.

Revenue Distribution - Business Loans

Gross Revenues	Businesses in AA		Number of Loans Originated within AA		Dollar Volume of Loans Originated within AA	
	# of Businesses	% of Businesses	# of Loans	% of Number	Dollar Volume	% of \$ Volume
<\$1,000,000	4,221	88.62%	31	77.50%	\$7,470,163	81.47%
>\$1,000,000	310	6.51%	9	22.50%	\$1,698,941	18.53%
Not reported	232	4.87%	0	0	0	0%
Totals	4,763	100%	40	100%	\$9,169,104	100%

Source: 2001 Business Geodemographic Data and Sample of 40 loans originated within AA from January 1, 1999 to December 31, 2001

Geographic Distribution of Loans

Based on our sample, the bank's geographic distribution of loans reflects reasonable dispersion throughout the assessment areas. There are no gaps in the bank's distribution of loans. The analysis reflects lending in all tracts in the bank's assessment area.

Geographic Distribution of Business Loans

Tract Income Type	Businesses in Assessment Area		Number of Loans Originated within AA		Dollar Volume of Loans Originated within AA	
	# of Businesses	% of Businesses	# of Loans	% of Number	Dollar Volume	% of Dollar Volume
Low	0	0%	0	0%	\$0	0%
Moderate	992	21%	10	25%	\$2,314,499	25%
Middle	2,019	42%	13	33%	\$3,256,564	35%
Upper	1,752	37%	17	43%	\$3,598,041	39%
Totals	4,763	100%	40	100%	\$9,169,104	100%

Source: 2001 Business Geodemographic Data and Sample of 40 loans originated within AA from January 1, 1999 to December 31, 2001

Business Loans

As shown in the table above, the bank's distribution of business loans by the percentage of

number of loans and dollar volume of loans originated in the moderate- income geographies was 25%. This compares favorably to the business demographics which shows that 21% of businesses reside in the low- and moderate-income tracts.

Responses to Complaints

No consumer complaints associated with the bank's performance under the provisions of the CRA have been made since the last examination.

Record of Compliance with Antidiscrimination Laws

An analysis of four years of public comments and consumer complaint information was performed based on our risk-based assessment of Fair Lending. Based on our analysis of this information, we determined that a comprehensive fair lending examination would not need to be conducted in connection with this CRA evaluation. The latest comprehensive fair lending examination was performed in 2001. This was a targeted exam. The objective of this examination was to determine the bank's compliance with fair lending laws and regulations. There were no violations of the substantive provisions of the anti-discrimination laws and regulations identified. Based on this review, it was determined that the bank's compliance with fair lending laws is satisfactory.