



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

January 07, 2013

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Northern California  
Charter Number 15089

975 El Camino Real  
South San Francisco, CA 94080

Office of the Comptroller of the Currency

One Front Street, Suite 1000  
San Francisco, CA 94111

**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.

**INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

First National Bank of Northern California (FNBNC) has an overall "Satisfactory" record of meeting community credit needs based on the following components:

- The bank has a reasonable loan-to-deposit (LTD) ratio which averaged 73.97% during the evaluation period.
- The bank's record of lending in the assessment area (AA) exceeds the standard for satisfactory performance. A significant majority of the bank's loans originated within its defined AA.
- The distribution of loans reflects a reasonable penetration among businesses of different sizes given the bank's product offerings and local economic conditions.
- The bank's geographic distribution of loans reflects reasonable dispersion throughout the AAs.
- The bank's community development performance demonstrates adequate responsiveness to the community development needs of its AA.
- There were no public complaints about the bank's CRA performance.

## **Scope of Examination**

This Performance Evaluation covers the period from December 1, 2009, through January 7, 2013, and was evaluated using 2000 U.S. Census demographic information. We did not conduct a data integrity review prior to this evaluation. Commercial loans are the bank's primary product as they accounted for a majority of loan originations during the evaluation period. We analyzed the bank's 2010 and 2011 business loans for the lending test. Due to the unavailability of 2010 U.S. Census Demographic information, we did not include loans originated during 2012 in our analysis. We reviewed all of the bank's community development investments, loans, and services to ensure they met the definition for community development.

FNBNC acquired Oceanic Bank in September 2012. Due to the short amount of time between the acquisition of Oceanic Bank and the January 7, 2013 date of this performance evaluation, our analysis did not include activity related to Oceanic Bank.

## **Description of Institution**

FNBNC is a national bank established in 1963, headquartered in South San Francisco, California. FNBNC is a wholly owned subsidiary of FNB Bancorp, a one-bank holding company, formed in March 2002.

Through the acquisition of Oceanic Bank, FNBNC gained three additional branches, including two branches in San Francisco, California, and one branch in Guam.

After the Oceanic Bank acquisition, FNBNC had total assets of close to \$898 million and total gross loans of slightly over \$559 million as of September 30, 2012. FNBNC currently operates fifteen full service branches, including two branches in the city of South San Francisco five branches in San Francisco, seven other California branches in Daly City, Half Moon Bay, Millbrae, Pescadero, Redwood City, San Mateo, and Pacifica, and one branch in Guam. Approximately 40 percent of FNB's branches are located in low to moderate income census tracts.

In 2010, the bank closed one branch in Pacifica, California, and one branch in Colma, California. Both branches were located in middle income census tracts. The closure of these branches did not negatively impact the bank's ability to serve the credit needs of low- or moderate-income people in the AA.

FNBNC is a local community bank. The bank's primary business is servicing the banking needs of individuals and small to mid-sized businesses within San Mateo and San Francisco counties. FNBNC offers a full range of loan products, including commercial real estate loans, commercial and industrial loans, residential mortgages, SBA loans, farm loans, and consumer loans. FNBNC is a commercial bank, and its loans continue to be concentrated in commercial loans within its AA.

**Table 1**

<b>FNBNC LOAN PORTFOLIO COMPOSITION</b>		
<b>Loan Types</b>	<b>\$ Volume (000)</b>	<b>% of Portfolio</b>
Commercial	373,286	66.74
Residential Real Estate	179,171	32.03
Other	6,887	1.23
<b>Total Loans</b>	<b>559,344</b>	<b>100.00</b>

*Source: Call Report as of 9/30/12*

The bank received a rating of "Satisfactory" at the prior evaluation dated November 30, 2009. There are no legal or financial circumstances impeding the bank's ability to help meet the credit needs of the community.

***Please refer to the bank's CRA public file for more information about the institution.***

## Description of Assessment Area(s)

An AA is a geographic area wherein CRA performance is measured. These geographies must include the institution's branch offices and/or deposit-taking Automated Teller Machines (ATMs) and surrounding geographies in which the bank has originated or purchased a substantial portion of its loans. In addition, the AA boundaries must follow contiguous political subdivisions, such as counties, cities, or towns.

FNB's AA designation follows contiguous political subdivisions. The bank's AA has been designated as San Francisco and San Mateo counties. These two counties are parts of the San Francisco-San Mateo-Redwood City Metropolitan Division (MD) #41884. San Francisco-San Mateo-Redwood City MD is also part of the greater San Francisco-Oakland-Fremont Metropolitan Statistical Area (MSA). The AA delineation is reasonable given the bank's branch locations and lending focus. The AA designation meets regulatory requirements. The bank does not arbitrarily exclude any low- or moderate-income census tracts.

The 2011 HUD Updated Median Family Income (MFI) for the San Francisco and San Mateo counties combined is \$101,600, an increase of 35.1% since the 2000 U.S. Census. According to the 2000 U.S. Census data, low- and moderate-income census tracts represented 31.7% of all census tracts in the San Francisco and San Mateo counties combined, and 27.3% of all families live within low- or moderate-income census tracts.

Economic conditions of San Francisco and San Mateo counties improved during the review period. According to the Bureau of Labor Statistics, the average annual unemployment rate increased sharply in 2009, peaked in March 2010, and has subsequently continued to improve. The average unemployment rate for San Francisco County was 8.9% in 2009 and increased to 9.6% in 2010. However, the unemployment rate has been decreasing since 2011. In 2011, the average unemployment rate for San Francisco County decreased to 8.6%, and then decreased further to 6.9% as of October 2012. The average unemployment rate for San Mateo County was 8.4% in 2009 and increased to 8.8% in 2010. In 2011, the average unemployment rate for San Mateo County decreased to 7.9%, and then decreased further to 6.3% as of October 2012.

As of July 1, 2011, the U.S. Census Bureau estimated the combined population of San Francisco and San Mateo counties to be 1,540,035, an increase of 1.07% since the 2010 U.S. Census. San Francisco and San Mateo counties combined house 4.09% of the population of California.

The following table provides additional information about the demographics of FNB's AA based on the 2000 U.S. Census and 2011 HUD updated MFI.

**Table 2**

<b>Demographic Information for FNBNC's AA – 2000 U.S. Census</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	331	7.85	23.87	38.97	28.70	0.60
Population by Geography	1,483,894	7.46	24.42	42.59	25.53	0.00
Owner-Occupied Housing by Geography	271,579	1.52	15.01	46.49	36.98	0.00
Business by Geography	190,326	15.68	20.41	34.08	29.74	0.08
Farms by Geography	1,802	6.83	20.26	38.79	34.13	0.00
Family Distribution by Income Level	319,743	22.20	17.98	20.36	39.47	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	128,443	12.09	31.51	41.93	14.47	0.00
Median Family Income		75,188	Median Housing Value		496,672	
HUD Adjusted Median Family Income for 2011		101,600	Unemployment Rate		2.12%	
Households Below Poverty Level		8%	(2000 U.S. Census)			

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

Source: 2000 U.S. Census and 2011 HUD updated MFI

FNBNC faces strong competition from 58 banks operating within its AA. FNBNC ranks 19<sup>th</sup> in deposit market share, with 0.29%. The four largest banks hold over 81% of the deposit market share. The major competing institutions include Bank of America, N.A., Wells Fargo Bank, N.A., Citibank, N.A., and Bank of America California, N.A.

Owner-occupied housing represents 45% of all housing units in the AA. Less than 17% of the owner-occupied units are located in low- and moderate- income census tracts, reflecting a low rate of home ownership in these census tracts.

In conjunction with this CRA examination, we conducted a community contact interview to learn about opportunities within the community, and how well financial institutions address the credit and service needs of the community. The contact was a San Mateo County Community Service Organization. The contact feels there is a need for local banks to provide time and services, including financial expertise, to address the needs of the community.

Please refer to the bank's CRA public file for more information about the institution.

## **Conclusions with Respect to Performance Tests**

### **LENDING TEST**

The bank's commercial lending performance in the AA is overall satisfactory. Conclusions to support this rating are based on the following components:

#### **Loan-to-Deposit Ratio**

The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. The last CRA examination was conducted in November 2009. The average quarterly loan-to-deposit ratio of the 12 quarters from December, 2009 to September 2012 was 73.97%.

**Lending in Assessment Area**

The bank's record of lending in the AA exceeds the standard for satisfactory performance.

**Table 3**

FNBNC LENDING IN THE AA								
Loan Type	Number of Loans				Dollars of Loans (000s)			
	Inside		Outside		Inside		Outside	
	#	%	#	%	\$	%	\$	%
Business Loans	386	86	62	14	85,778	80	20,881	20
<b>Totals</b>	<b>386</b>	<b>86</b>	<b>62</b>	<b>14</b>	<b>85,778</b>	<b>80</b>	<b>20,881</b>	<b>20</b>

Source: Commercial loans originated from January 1, 2010 to December 31, 2011

A majority of the bank's loans and other lending-related activities were made within the bank's designated AA. Our review included all 386 business loans originated in 2010 and 2011. Approximately 86% of the total loans and 80% of the dollar volume of the loans were to borrowers within their AA.

**Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

The distribution of loans reflects a reasonable penetration amongst businesses of different sizes and individuals of different income levels given the bank's product offerings and local economic conditions.

**Table 4**

SAN FRANCISCO AND SAN MATEO COUNTIES AA INCOME DISTRIBUTION OF LOANS TO BUSINESSES				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	65.94%	3.72%	30.35%	100%
% of Bank Loans in AA	53.37%	46.63%	0.0%	100%

Demographic Data Source: 2011 Business Geodemographic Data.

The percentage of businesses with revenues of less than or equal to \$1,000,000 within the AA is 65.94%. Based on the bank's small business reporting, the bank originated 53.37% of their loans to these businesses. Although the bank's activity is below demographics, it represents reasonable penetration amongst businesses of different sizes. Competition for small business loans in the AA is strong.

**Geographic Distribution of Loans**

The bank's geographic distribution of loans reflects reasonable dispersion throughout the AA. The bank was not able to penetrate all census tracts within its AAs. However, there were no conspicuous gaps in the bank's distribution of loans.

As shown in the table below, the bank's business lending in the low- income geographies of the AA was below the ratio of businesses located in low-income tracts. However, the bank's business lending in the moderate-income geographies exceeded the ratio of businesses in moderate-income tracts.

**Table 6**

<b>Geographic Distribution of Loans to Businesses in the San Francisco and San Mateo Counties AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	15.68	9.07	20.41	25.65	34.08	52.33	29.74	12.95

*Demographic Data Source: 2011 Business Geodemographic Data*

**Responses to Complaints**

There have been no consumer complaints relating to the bank's Community Reinvestment Act performance during the evaluation period.

**COMMUNITY DEVELOPMENT TEST**

The bank's community development performance demonstrates adequate responsiveness to the community development needs of its AAs through community development loans, qualified investments, and community development services, as appropriate, considering the bank's capacity and the need and availability of such opportunities for community development in the bank's AA.

**Number and Amount of Community Development Loans**

Qualifying community development loans are loans that meet the definition of community development, as defined in the CRA regulation. During the evaluation period, FNBNC originated six community development loans totaling close to \$6 million. One of the qualifying community development loans originated by FNBNC is described below.

- Trayer Engineering

The bank funded three lines of commercial credit to Trayer Engineering, which is located in both an Enterprise Zone that aids an economically distressed area and a low- to moderate-income census tract. Employee jobs were preserved as a result of the loans made available to the firm.

### **Number and Amount of Qualified Investments**

For the evaluation period, FNBNC had prior period mortgage-backed securities with a book value of approximately \$3.5 million. All properties are located within the bank's AA. The bank also had prior period Low Income Housing Investments within the bank's AA, with a book value of over \$5 million. Additionally, FNBNC had prior period Pacifica COPS-PU municipal bonds, La Honda Pescadero USD municipal bonds, and Millbrae SD SER municipal bonds with a book value of over \$3.1 million. All municipalities are within the bank's AA.

Cash donations of \$33.5M were made to various organizations during this evaluation period.

### **Extent to Which the Bank Provides Community Development Services**

The bank's community development services consist of volunteer and bank subsidized service efforts on the part of employees and senior bank management. Bank employees have provided community development services to over twenty organizations. The activity was responsive to the identified community development needs of small business and economic development. The bank also offered community development services targeted specifically to low- or moderate-income individuals or geographies.

### **Responsiveness to Community Development Needs**

The bank's overall responsiveness through community development activities, lending, investment, and services, is adequate. This is supported by the community development loans, services, and investments originated during the period. These services and investments help stabilize and support local economies with FNB's AA.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.