



---

**Comptroller of the Currency  
Administrator of National Banks**

**SMALL BANK**

---

Western District  
50 Fremont Street, Suite 3900  
San Francisco, California 94105  
(415) 545-5900

## **PUBLIC DISCLOSURE**

**SEPTEMBER 14, 1998**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**NATIONAL BANK OF THE REDWOODS  
Charter Number 18541**

**111 Santa Rosa Avenue  
Santa Rosa, California 95404**

**Comptroller of the Currency  
50 Fremont Street, Suite 3900  
San Francisco, California 94105**

<p><b>NOTE:</b> 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.</p>
---

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Community Reinvestment Act (CRA)** - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Metropolitan Statistical Area (MSA)** - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

**Census Tract (CT)** - Small, locally defined statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. ACT has defined boundaries per ten year census and an average population of 4,000.

**Home Mortgage Disclosure Act (HMDA)** - A statute that requires certain mortgage lenders that do business or have banking offices in an MSA to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, and its disposition (e.g., approved, denied, withdrawn).

**Median Family Income (MFI)** - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of census tracts. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Low-Income** - Income levels that are less than 50% of the MFI.

**Moderate-Income** - Income levels that are at least 50% and less than 80% of the MFI.

**Middle-Income** - Income levels that are at least 80% and less than 120% of the MFI.

**Upper-Income** - Income levels that are 120% or more of the MFI.

**Small Business Loans** - Loans with an original amount of \$1 million or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

**Small Farm Loans** - Loans with an original amount of \$500 thousand or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

## 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 Community Reinvestment Act (CRA) performance of **NATIONAL BANK OF THE REDWOODS** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of September 14, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

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

The bank's rating is based primarily on its performance in the Santa Rosa assessment area, which is the bank's primary trade area.

- C The Bank's loan-to-deposit ratio meets the standard for satisfactory performance.
- C The bank's loans are reasonably distributed among the geographies of all income levels.
- C National Bank of the Redwood's loans are reasonably distributed among borrowers of different incomes and businesses of different sizes.
- C The results of the bank's Fair Lending examination are satisfactory.
- C Lending in the assessment area does not meet the standard for satisfactory performance.

## **DESCRIPTION OF INSTITUTION:**

National Bank of the Redwoods (NBR) is a \$431 million community bank, with its main office located in Santa Rosa. NBR is the principal operating subsidiary of Redwood Empire Bancorp (REB), a publicly owned corporation. NBR has three wholly-owned subsidiaries, Allied Diversified Credit Corporation, Redwood Empire Datacorp and Valley Financial Mortgage Corporation, which was formerly known as NBR Mortgage Company, Inc. Valley Financial Mortgage Corporation is a general partner of six limited partnerships engaged in retail mortgage lending. The six limited partnerships operate in San Jose, Tracy, Berkeley, San Carlos and Carmel cities in Northern California, and Northridge in Southern California.

NBR has seven branches. Five branches are located in Sonoma County, one in Lake County and one in Mendocino County. NBR owns six automated teller machines (ATMs). Five of the ATMs are attached to branches and one is a stand alone. In addition, NBR operates drive-up windows at three offices, two in Santa Rosa and one in Ukiah.

Valley Financial Mortgage Corporation generates mortgage loans. Thirty percent (30%) of these loans are funded by the bank and subsequently sold on the secondary market. The other 70% of the loans generated are brokered to other lenders. Allied Diversified Credit provides retail and wholesale mortgages to borrowers who do not meet the Fannie Mae and Freddie Mac underwriting criteria. All of these loans are sold on the secondary market.

NBR also operates a courier service which serves 198 businesses. In addition, NBR provides electronic banking for its business clients such as, funds transfer, stop payments on checks, and loan and deposit account inquiries. Telephone banking provides retail customers with access to a variety of banking activities. A significant portion of NBR's operation is the processing of VISA and MasterCard transactions for retail merchants locally and nationally.

In March 1997, REB merged Allied Bank F.S.B. (Allied), a wholly owned subsidiary into NBR. Prior to the merger, Allied operated a main office in Santa Rosa with branches in Ukiah and Lakeport, as well as mortgage offices in Washington and Oregon.

As of June 30, 1998, the bank had \$283 million in loans, comprising 66% of total assets. The loan portfolio consists of: 75% commercial and residential real estate; 21% business; 2% farm; and 2% consumer loans. In addition to lending, the bank also engages in residential real estate loan brokering.

There are no legal impediments to the bank's ability to meet the credit needs of its assessment areas.

We examined this bank under the criteria established for small banks (banks with assets of less than \$250 million). To apply the large bank criteria, the regulation requires that a bank's assets exceed \$250 million for at least two calendar year ends prior to the performance evaluation. We did not apply the large bank criteria at this examination, since NBR had not exceeded the \$250 million threshold until March 1997. The bank's prior examination under the CRA was October 18, 1996.

### **DESCRIPTION OF ASSESSMENT AREAS:**

NBR has two assessment areas. One assessment area is Sonoma County, which is the Santa Rosa Metropolitan Statistical Area (MSA). The other assessment area comprises Lake County and Mendocino County, which are Non MSAs. The assessment areas meet the requirements of the regulation and do not arbitrarily exclude low- and moderate-income geographies.

#### **Santa Rosa Assessment Area:**

This assessment area consists of 60 census tracts. There are forty-two middle-income, nine upper-income and eight moderate-income census tracts within the assessment area. There is one census tract for which the 1990 census reported no income information. Although there are no low-income census tracts, 17% of the families in the assessment area are low-income. According to the Department of Housing and Urban Development (HUD), the 1997 median income for the assessment area is \$54,300.

Recent Dun and Bradstreet statistics show that of the 17,792 businesses within the assessment area, 14,053 (or 79%) had sales of less than \$1 million. The same statistics show that there are 734 farms of which 652 (or 89%) reported sales of less than \$1 million. Significant industries are services (42%); retail trade (19%); construction (10%) and finance, insurance and real estate (9%).

Banking in the Santa Rosa assessment area is competitive. There are more than 22 financial institutions, which include community banks, savings and loan associations, credit unions, and branches of major banks.

We considered information from the community, including a county economic development agency and a nonprofit housing organization. According to these contacts, the primary credit needs of the assessment area are for easy qualification first-time home buyer's loans, finance or discount of closing costs, and finance acquisition and rehabilitation of existing properties for low-income rental.

#### **Lake and Mendocino Assessment Area:**

This assessment area consists of 32 block numbering areas (BNAs). There are eighteen middle-income, seven moderate-income and six upper-income BNAs. There is 1 BNA for which the 1990 census reported no income information. Although there are no low-income BNAs within the assessment area, 22% of the families in the assessment area are low-income. According to the Department of Housing and Urban Development (HUD), the 1997 median family income for the assessment area is \$36,500.

Recent Dun and Bradstreet statistics show that of the 6,154 businesses within the assessment area, 5,058 (or 82%) had sales of less than \$1 million. The same statistics show 276 farms, of which 233 (or 84%) reported sales of less than \$1 million. Significant industries are service (40%); retail trade (23%); and construction (10%).

Banking in this assessment area is also competitive. There are more than 19 financial institutions, which include community banks, savings and loan associations, credit unions, and branches of major banks.

We considered information from community contacts including a city community development department and a county housing organization. These contacts identified the need for loans for the following purposes: residential rehabilitation; first-time home buyer's for low-income individuals; and small business. There is also a need for participation in the Mortgage Credit Certificate Program.

#### **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

Our conclusions are based on the bank's lending activity from January 1, 1997, through June 30, 1998. We used loan data provided by the bank. We sampled a number of loans to confirm the accuracy of the information and to determine the incomes and revenues of borrowers. Our sample included 110 real estate and 104 business loans originated in the assessment area.

#### **LOAN TO DEPOSIT RATIO**

NBR's loan-to-deposit (LTD) ratio meets the standard for satisfactory performance. The bank's average LTD ratio for the eight quarters ended March 31, 1998, was 78%. The average ratio for three similarly situated banks was 70% for the same period. For the purposes of this examination, similarly situated banks are banks of similar asset size located within the assessment areas.

#### **GEOGRAPHIC DISTRIBUTION**

##### **Santa Rosa Assessment Area:**

The distribution of loans among the geographies at all income levels within the assessment area is reasonable. NBR originated loans throughout the assessment area and in census tracts of all income levels. Borrowers in moderate-income geographies received 10% (by number) and 7% (by dollar) of the loans funded. This distribution compares favorably to the makeup of the assessment area, where moderate-income geographies account for 13% of total geographies. Borrowers in middle- and upper-income geographies also received loans consistent with area demographics. Refer to the following tables for specific information.

<b>Distribution of Loans Within Santa Rosa Assessment Area</b>					
<b>Income Characteristic of Census Tracts</b>	<b>Percent of Total Census Tracts</b>	<b>Number of Loans</b>	<b>Percent of Loans</b>	<b>Loan Dollars</b>	<b>Percent of Loans by dollar</b>
<b>Low</b>	<b>0%</b>	<b>0</b>	<b>0%</b>	<b>\$0</b>	<b>0%</b>
<b>Moderate</b>	<b>13%</b>	<b>130</b>	<b>10%</b>	<b>\$13,698,000</b>	<b>7%</b>
<b>Middle</b>	<b>70%</b>	<b>868</b>	<b>67%</b>	<b>\$131,054,000</b>	<b>68%</b>
<b>Upper</b>	<b>15%</b>	<b>293</b>	<b>23%</b>	<b>\$47,634,000</b>	<b>25%</b>
<b>NA*</b>	<b>2%</b>	<b>0</b>	<b>0%</b>	<b>\$0</b>	<b>0%</b>
<b>Total</b>	<b>100%</b>	<b>1291</b>	<b>100%</b>	<b>\$192,386,000</b>	<b>100%</b>

\* no income information reported in 1990 census

#### **Lake and Mendocino Assessment Area:**

Although NBR originated loans in geographies of every income level within the assessment area, the distribution among the geographies does not meet the standard for satisfactory performance. As noted in the following table, 22% of the census tracts are moderate income. However, only 9% of the loans by number are in moderate income census tracts. The distribution among the moderate- and upper-income tracts is good. The cause is the location of the branch in Lake County, which was opened in March 1997, and which is not readily accessible to all portions of the county. The branch is located in the western half of the county which is separated from the eastern half by Clear Lake. The moderate-income geographies are in the eastern portion of the county. This significant geographic barrier creates the disproportionate loan distribution. Additionally, there are no loan officers in this

branch. The loan officer from the Mendocino branch meets with borrowers by appointment. Please refer to the following tables for specific information.

<b>Distribution of Loans Within Lake and Mendocino Assessment Area</b>					
<b>Income Characteristic of Census Tracts</b>	<b>Percent of Total Census Tracts</b>	<b>Number of Loans</b>	<b>Percent of Loans</b>	<b>Loan Dollars</b>	<b>Percent of Loans by dollar</b>
<b>Low</b>	<b>0%</b>	<b>0</b>	<b>0%</b>	<b>\$0</b>	<b>0%</b>
<b>Moderate</b>	<b>22%</b>	<b>20</b>	<b>9%</b>	<b>\$1,565,000</b>	<b>7%</b>
<b>Middle</b>	<b>56%</b>	<b>106</b>	<b>50%</b>	<b>\$12,332,000</b>	<b>59%</b>
<b>Upper</b>	<b>19%</b>	<b>86</b>	<b>41%</b>	<b>\$7,095,000</b>	<b>34%</b>
<b>NA*</b>	<b>3%</b>	<b>0</b>	<b>0%</b>	<b>\$0</b>	<b>0%</b>
<b>Total</b>	<b>100%</b>	<b>212</b>	<b>100%</b>	<b>\$20,992,000</b>	<b>100%</b>

\* no income information reported in 1990 census

## **LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES**

### **Santa Rosa Assessment Area:**

The bank's real estate loans are reasonably distributed among borrowers of different incomes. Of the mortgage loans funded, low-income borrowers received 1% and moderate-income borrowers received 9% of the loan dollars funded within the assessment area. This distribution is not consistent with the area demographics; low- and moderate-income persons make up 17% and 19% of the total families respectively. However, the National Association of Home Builders rank housing in this assessment area in the top ten as the least affordable in the country. According to the 1995 HUD community profile, low- and moderate-income households find it almost impossible to purchase homes in this marketplace. Also, the transient nature of the agricultural farmworkers creates a demand for specialized housing. The lack of affordable housing and the unique needs of a significant portion of the population create significant barriers to mortgage lending in this area. The distribution among the middle- and upper-income borrowers are consistent with the area demographics. Refer to the following table for specific information.

<b>Distribution of Real Estate Loans to Borrowers of Different Incomes Within the Santa Rosa Assessment Area</b>				
<b>Borrower Income Level</b>	<b>Loan Dollars</b>	<b>Percent of Dollars</b>	<b>Number of Loans</b>	<b>Percent of Numbers</b>
<b>Low</b>	<b>\$1,359,000</b>	<b>1%</b>	<b>16</b>	<b>2%</b>
<b>Moderate</b>	<b>\$10,030,000</b>	<b>9%</b>	<b>91</b>	<b>14%</b>
<b>Middle</b>	<b>\$25,535,000</b>	<b>23%</b>	<b>191</b>	<b>29%</b>
<b>Upper</b>	<b>\$74,063,000</b>	<b>67%</b>	<b>369</b>	<b>55%</b>
<b>Total</b>	<b>\$110,987,000</b>	<b>100%</b>	<b>667</b>	<b>100%</b>

The bank's business loans are considered reasonably distributed among businesses of different sizes, since NBR's primary lending focus is not business lending. NBR is real estate lender. Based on our sample, NBR funded 22% of loans (by dollar) and 40% (by number) to businesses with revenues of less than \$1 million. Within the assessment area 79% of the businesses report sales of less than \$1 million. Refer to the following table for specific information.

<b>Distribution of Business Loans By Revenues Within Santa Rosa Assessment Area</b>				
<b>Revenues</b>	<b>Loan Dollars</b>	<b>Percent of Dollars</b>	<b>Loan Numbers</b>	<b>Percent of Numbers</b>
<b>&lt;\$100,000</b>	<b>\$573,000</b>	<b>4%</b>	<b>4</b>	<b>7%</b>
<b>&gt;\$100,000&lt;\$250,000</b>	<b>\$627,000</b>	<b>5%</b>	<b>7</b>	<b>12%</b>
<b>&gt;\$250,000&lt;\$500,000</b>	<b>\$620,000</b>	<b>4%</b>	<b>5</b>	<b>8%</b>
<b>&gt;\$500,000&lt;\$1,000,000</b>	<b>\$1,197,000</b>	<b>9%</b>	<b>8</b>	<b>13%</b>
<b>&gt;\$1,000,000</b>	<b>\$10,758,000</b>	<b>78%</b>	<b>36</b>	<b>60%</b>
<b>Total</b>	<b>\$13,775,000</b>	<b>100%</b>	<b>60</b>	<b>100%</b>

### **Lake and Mendocino Assessment Area:**

The bank's real estate loans are not reasonably distributed among borrowers of different incomes. However, with only one branch, NBR has a limited presence in this market. Additionally, the high cost of real estate restricts the low- and moderate-income borrowers from purchasing homes. Of the loans funded by NBR, low-income borrowers received less than 1% and moderate-income borrowers received 7% of the loan dollars within the assessment area. This distribution is inconsistent with the area demographics. Low- and moderate-income borrowers make up 22% and 18% of the total families. Middle- and upper-income borrowers received 16% and 76% of the loan dollars respectively. Refer to the table below for details.

<b>Distribution of Real Estate Loans to Borrowers of Different Incomes Within Lake and Mendocino Area</b>				
<b>Borrower Income Level</b>	<b>Loan Dollars</b>	<b>Percent of Dollars</b>	<b>Number of Loans</b>	<b>Percent of Numbers</b>
<b>Low</b>	<b>\$35,000</b>	<b>0%</b>	<b>3</b>	<b>3%</b>
<b>Moderate</b>	<b>\$801,000</b>	<b>7%</b>	<b>12</b>	<b>12%</b>
<b>Middle</b>	<b>\$1,827,000</b>	<b>16%</b>	<b>20</b>	<b>20%</b>
<b>Upper</b>	<b>\$8,657,000</b>	<b>77%</b>	<b>63</b>	<b>65%</b>
<b>Total</b>	<b>\$11,320,000</b>	<b>100%</b>	<b>98</b>	<b>100%</b>

Within the assessment area, the bank's commercial loans are reasonably distributed among businesses of different sizes. Based on our sample, NBR funded 44% of loans (by dollars) and 82% (by numbers) to businesses with revenues of less than \$1 million. The numbers of loans originated compares favorably to the business demographics. Within the assessment area 82% of the businesses report sales of less than \$1 million. Refer to the following table for specific information.

<b>Distribution of Business Loans By Revenues Within Lake and Mendocino Area</b>				
<b>Revenues</b>	<b>Loan Dollars</b>	<b>Percent of Dollars</b>	<b>Loan Numbers</b>	<b>Percent of Numbers</b>
<\$100,000	\$595,000	16%	17	39%
>\$100,000<\$250,000	\$544,000	15%	9	21%
>\$250,000<\$500,000	\$167,000	4%	5	11%
>\$500,000<\$1,000,000	\$335,000	9%	5	11%
>\$1,000,000	\$2,105,000	56%	8	18%
<b>Total</b>	<b>\$3,746,000</b>	<b>100%</b>	<b>44</b>	<b>100%</b>

**COMMUNITY DEVELOPMENT LOANS**

NBR funded the following community development loans which benefited the Santa Rosa assessment area. These loans demonstrate alternative measures the bank employs to meet the credit needs of the low- and moderate-income borrowers. These loans are also included in the loans discussed in the preceding pages of this report.

- C California Economic Development Lending Initiative (CEDLI)** - NBR continues to participate in CEDLI’s lending efforts. Currently the bank has a \$250,000 line of credit to this entity, which has a balance of \$36,325.
- C Bodega Hills** - The bank financed \$2,100,000 for the construction of a 24-unit low- and moderate-income apartment building, and made a \$710,000 permanent loan.
- C Papago Court** - The bank financed \$140,000 (10%) of the construction loan for the development of 40 apartments for low- and moderate-income individuals.
- C Anteo Place** - NBR provided a \$1,200,000 construction loan for 20 low-income detached homes.
- C Pinebrook** - The bank financed a \$1,850,000 construction loan for the development of 41 low-income homes.

## **LENDING IN ASSESSMENT AREAS**

NBR's lending in the assessment areas does not meet the standard for satisfactory performance. To meet this requirement, the bank must at least originate 50% of its loans within the assessment area. Total loans originated in the assessment area during this review period were 46% by number and 40% by dollar volume. However, the merger significantly affected the bank's performance in this rating criteria. Prior to the merger, Allied Bank had offices in San Jose and Sacramento, which were closed in 1997. These offices originated large numbers of real estate loans which are included in the loans outside of the bank's assessment area. Additionally, Allied had LPOs outside of NBR's assessment areas, which also originated real estate loans. As a result, real estate loans account for 55 percent by dollar and 53 percent by number of the loans funded outside of the assessment areas, significantly skewing the bank's performance.

## **RESPONSE TO WRITTEN COMPLAINTS**

NBR has not received any written complaints associated with its performance under the Community Reinvestment Act.

## **RECORD OF COMPLIANCE WITH ANTI-DISCRIMINATION LAWS**

We performed a concurrent fair lending examination. This examination did not reveal any evidence of disparate treatment or illegal discrimination.