



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

November 30, 2009

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Northern California  
Charter Number: 15089

6600 Mission Street  
Daly City, CA 94014

Office of the Comptroller of the Currency

San Francisco Field Office  
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.**

First National Bank of Northern California (FNB) has an overall satisfactory record of meeting community credit needs. This is based on the following:

- The bank has a reasonable loan-to-deposit (LTD) ratio which averaged 93.03% during the evaluation period.
- The bank's record of lending in its assessment area (AA) exceeds the standard for satisfactory performance. A substantial majority of the bank's loans were 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 its AA.
- 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.

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

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

## **Scope of Examination**

This Performance Evaluation covered the period from October 23, 2006 through November 30, 2009, and was evaluated using 2000 United States Census demographic information. There had been no data integrity review conducted prior to this evaluation. We analyzed all the bank's commercial loans originated in 2007 through year-to-date 2009, for the lending test. We also reviewed all of the bank's community development investments, loans, and services made during the evaluation period, to ensure they met the definition for community development.

## **Description of Institution**

FNB is an intrastate community bank established as a national charter in 1963. The bank is headquartered in South San Francisco, California. The bank's primary business is servicing the banking needs of individuals and small to mid-sized businesses within its assessment area (AA) of San Mateo and San Francisco Counties. FNB is a subsidiary of FNB Bancorp, a one-bank holding company, formed in March 2002.

FNB operates thirteen full service branches in the San Francisco Metropolitan District (MD). The bank operates two branches, including the main office, in the city of South San Francisco. The bank also operates two branches in Pacifica, and two branches and one night depository facility and ATM in San Francisco. Other branches are

located in Colma, Daly City, Half Moon Bay, Millbrae, Pescadero, Redwood City, and San Mateo.

As of September 30, 2009, FNB had total assets of over \$699 million and total gross loans of close to \$516 million. Loans are concentrated in business lending within its AA.

The bank received a rating of “Satisfactory” at the prior evaluation, dated October 23, 2006. There are no legal or financial circumstances impeding the bank’s ability to help meet the credit needs of the community.

**Table 1**

FIRST NATIONAL BANK OF NORTHERN CALIFORNIA LOAN PORTFOLIO COMPOSITION		
Loan Type	\$ Volume (000)	% of Portfolio
Commercial	454,045	88.00
Residential Real Estate	53,763	10.42
Others	8,153	1.58
<b>Total Loans</b>	<b>515,961</b>	<b>100.00</b>

*Source: Call Report as of 9/30/09*

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

## Description of Assessment Area

The bank’s AA has been designated as San Francisco and San Mateo Counties in the San Francisco MD. There are 331 census tracts within the AA; 26 low income tracts, 79 moderate income tracts, 129 middle income tracts, 95 upper income tracts, and 2 NA (not available) tracts. The AA meets the requirements of the regulation.

The following table shows the demographics of the AA according to the 2000 United States census data:

**Table 2**

SAN FRANCISCO AND SAN MATEO COUNTIES AA INCOME CHARACTERISTICS OF CENSUS TRACTS, BUSINESSES, AND FAMILIES						
Income of Census Tract	# and % of Census Tracts		# and % of Businesses		# and % of Families	
Low Income	26	7.86	3,750	3.15	19,249	6.02
Moderate Income	79	23.87	26,620	22.36	68,009	21.27
Middle Income	129	38.97	51,622	43.36	140,463	43.93
Upper Income	95	28.70	37,062	31.13	92,022	28.78
N/A	2	0.60	0	0.00	0	0.00
<b>Total:</b>	<b>331</b>	<b>100.00</b>	<b>119,054</b>	<b>100.00</b>	<b>319,743</b>	<b>100.00</b>

*Source: 2008 Dun & Bradstreet*

The total population of the AA is 1,483,894. The majority of businesses are located in

middle-income census tracts. 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 tracts.

FNB faces strong competition from 62 banks operating within the assessment area. FNB ranks 18<sup>th</sup> in deposit market share, with 0.36%. The four largest banks hold over 79% of the deposit market share. The major competing institutions include Bank of America, N.A., Wells Fargo Bank, N.A., Citibank, N.A., and Union Bank of California, N.A.

In conjunction with this CRA examination, we conducted a community contact interview. Community contacts are interviewed to learn about credit 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 Supervisor. The contact feels there is a need for local banks to provide financial education, investment counseling, small business lending, and scholarships.

***Please refer to the public file for additional information about the AA.***

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

### **LENDING TEST**

Based on a full scope review, the bank's commercial lending performance in the AA is overall satisfactory. Conclusions to support this rating are based on the following:

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

The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. The average quarterly loan-to-deposit ratio of the 12 quarters from July 2006 to September 2009 was 93.03%.

#### **Lending in Assessment Area**

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

**Table 3**

FIRST NATIONAL BANK OF NORTHERN CALIFORNIA LENDING IN THE AA								
Loan Type	Number of Loans				Dollars of Loans			
	Inside		Outside		Inside		Outside	
	#	%	#	%	\$	%	\$	%
Business Loans	496	83	103	17	99,160	79	26,376	21
<b>Totals</b>	<b>496</b>	<b>83</b>	<b>103</b>	<b>17</b>	<b>99,160</b>	<b>79</b>	<b>26,376</b>	<b>21</b>

Source: HMDA and CRA reported loans originated from January 1, 2007 to September 30, 2009

A substantial majority of the bank's loans are made within the bank's designated AA. Our review included all commercial loans originated in 2007, 2008, and year-to-date 2009. The bank originated 496 loans, or 83% of the number of loans, and 79% of the dollar volume of the loans, 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 among businesses of different sizes, given the bank's product offerings and local economic conditions.

**Table 4**

SAN FRANCISCO AND SAN MATEO COUNTIES AA DISTRIBUTION OF LOANS TO BUSINESSES BY INCOME				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	66.29%	6.42%	27.29%	100%
% of Bank Loans in AA	49.19%	50.61%	0.20%	100%

Demographic Data Source: 2008 Business Geodemographic Data.

The percentage of businesses with revenues of less than or equal to \$1,000,000 within the AA is 66.29%. Based on the bank's small business reporting, the bank originated 49.19% of their loans to these businesses. Although the bank's activity is somewhat lower than demographics, it represents reasonable penetration among businesses of different sizes.

### 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 their AA. 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 somewhat lower than the ratio of businesses in low-income tracts, and in moderate-income geographies of the AA, was near to the ratio of businesses located in moderate-income tracts.

**Table 6**

SAN FRANCISCO AND SAN MATEO COUNTIES AA GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES								
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	17.97	10.48	21.35	20.16	33.27	53.83	27.30	15.52

*Demographic Data Source: 2008 Business Geodemographic Data*

Competition for small business loans in the AA is strong. And, the bank's documentation requirements for small business loans, although sound and conservative, sometime handicaps the bank in competitively gaining a greater market share from its rivals.

### **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 (CD) performance demonstrates adequate responsiveness to the community development needs of its AA 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, FNB originated one (1) community development loan totaling over \$1 million. The loan is described below.

- **YBC Development II, LP**

This organization is the holding company for Yerba Buena Commons, a low-income housing development in San Francisco. The loan enabled the company to refinance a property that contains 257 efficiency units. The units are rent restricted until 2052, with a current maximum rent of \$790/unit per month. Residents must receive an annual income below \$31.7M to live in the property.

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

During the evaluation period, FNB purchased mortgage-backed securities totaling over \$5 million. All properties are located within the bank's AA. They also purchased Pacifica COPS-PU municipal bonds, La Honda Pescadero USD municipal bonds, and Millbrae SD SER municipal bonds, totaling over \$3 million. All municipalities are within the bank's AA.

Cash donations of \$47M 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 15 community development qualified organizations.

## **Responsiveness to Community Development Needs**

The bank's overall responsiveness through CD activities, CD lending, investment, and services needs, is adequate. This is supported by the CD loan, services, and investments originated during the period. This loan and these services and investments help stabilize and support local economies; and, help provide affordable housing to low- and moderate-income families within 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.