

# **PUBLIC DISCLOSURE**

**November 1, 1999**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Sonoma National Bank  
Charter Number 18542**

**801 Fourth Street  
Santa Rosa, CA 95404**

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

**NOTE: 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.**

## TABLE OF CONTENTS

---

<b>GENERAL INFORMATION</b>	3
<b>DEFINITIONS OF TERMS APPLIED IN THIS PUBLIC DISCLOSURE</b>	4
<b>DESCRIPTION OF INSTITUTION</b>	5
<b>DESCRIPTION OF ASSESSMENT AREA</b>	5
<b>COMMUNITY CONTACTS</b>	6
<b>SCOPE OF REVIEW</b>	7
<b>CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA</b>	7
<i>Loan to Deposit Ratio:</i>	7
<i>Lending in the Assessment Area:</i>	8
<i>Geographic Distribution of Loans</i>	8
<i>Distribution of Credit Within the Assessment Area by Business Revenue</i>	9
<b>OTHER ITEMS</b>	10
<i>Response to Complaints:</i>	10
<i>Fair Lending Examination:</i>	10

## 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 **Sonoma National Bank** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, **as of November 1, 1999**. 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 **ASatisfactory.**<sup>6</sup> The factors supporting the bank's overall rating include the following:

- C The bank's quarterly average loan-to-deposit ratio exceeds the standards for satisfactory performance;
- C The distribution of loans to businesses with different revenues is reasonable;
- C The geographic distribution of loans throughout the assessment area is good;
- C A majority of loans generated were within the bank's assessment area.

## DEFINITIONS OF TERMS APPLIED IN THIS PUBLIC DISCLOSURE

### **Low - Income Geography:**

For a census tract: The median *family* income is less than 50% of the median *family* income for the MSA in which it is located.

### **Moderate - Income Geography:**

For a census tract: The median *family* income is equal to or greater than 50% and less than 80% of the median *family* income for the MSA in which it is located.

### **Middle - Income Geography:**

For a census tract: The median *family* income is equal to or greater than 80% and less than 120% of the median *family* income for the MSA in which it is located.

### **Upper - Income Geography:**

For a census tract: The median *family* income is equal to or greater than 120% of the median *family* income for the MSA in which it is located.

### **LMI:**

Abbreviation for Low- or moderate - income. Characterizes geographies and families.

### **Median Family Income:**

As determined by U.S. Census Bureau data in 1990.

### **MSA:**

Metropolitan Statistical Area.

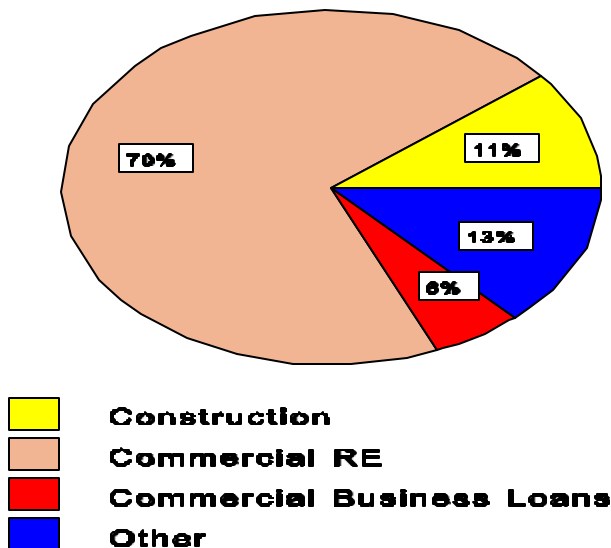
## DESCRIPTION OF INSTITUTION

Sonoma National Bank (SNB) was founded in 1985, and is a wholly owned subsidiary of Northern Empire Bancshares, a unit bank holding company. As of September 30, 1999, the bank had total assets of \$371 million. The institution provides general banking services through its main office in Santa Rosa, CA and two branches in Oakmont and Windsor, CA. The bank also operates three Loan Production Offices in San Francisco, CA; Citrus Heights, CA; and, Phoenix, AZ. The bank does not have ATM's.

SNB focuses its lending activity to business customers by offering commercial real estate, real estate construction, and commercial business loans. These loans account for 87% of the total loans outstanding as of September 30, 1999.

The following chart portrays the principal loan mix of the bank:

**Loan Portfolio as of 9/30/99**



There are no legal or financial circumstances impeding the bank's ability to help meet the credit needs of the community. SNB received a satisfactory rating in its prior CRA evaluation in July 1996.

## DESCRIPTION OF ASSESSMENT AREA

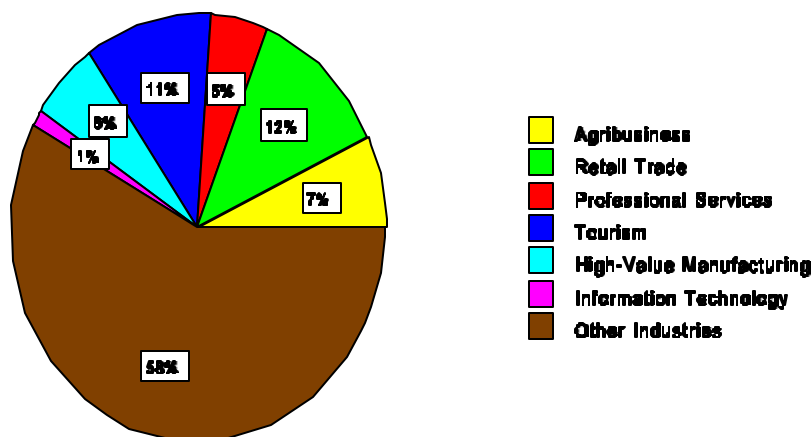
SNB has chosen Sonoma County as its assessment area. The 1990 US Census reports Sonoma County is comprised of 60 census tracts and populated by 388,222 individuals. As shown in Table 1, there are no low income census tracts within the county, and the majority of the population and businesses are located in middle income census tracts. The 1999 HUD median family income is \$55,900 and 36% of the families within the county are low to moderate-income (LMI) families (based on 1990 census median family income of \$41,961). Competition in the area is high among community banks, thrifts, and local branches of regional and large banks. SNB's assessment area meets regulatory guidelines and does not arbitrarily exclude LMI areas.

Assessment Area Characteristics				
Income Level	Number of Census Tracts	Percent of Total Census Tracts	Percent of Families	Percent of Businesses
Low Income	0	0%	0%	0%
Moderate Income	8	13%	9%	16%
Middle Income	42	70%	74%	70%
Upper Income	9	15%	17%	14%
N/A *	1	2%	0%	0%
Total	60	100%	100%	100%

**Table 1** Source: 1990 US Census and 1999 Dun and Bradstreet Business Demographic Data

Sonoma County has experienced strong growth in jobs and real income. It is the fastest growing metropolitan area in the Bay Area with over 30% of the county's population living in Santa Rosa. During 1999, the economy of Sonoma County entered its sixth year of growth, outperforming both California's and the nation's economy since 1990. Six industry clusters are considered to be the primary drivers of the economy: agribusiness, information technology, high-value manufacturing, tourism, professional services, and retail trade.

### Employment Distribution by Leading Cluster, 1998



Source: Regional Financial Associates

### COMMUNITY CONTACTS

We made two contacts with local community organizations to gain additional information about the community. Both contacts considered the local economy to be robust with strong job growth. They feel that affordable housing and small business loans are the primary needs of the community. We also

reviewed the files of several previous community contacts who also reflect that affordable housing and small business loans are the primary needs of the community.

## SCOPE OF REVIEW

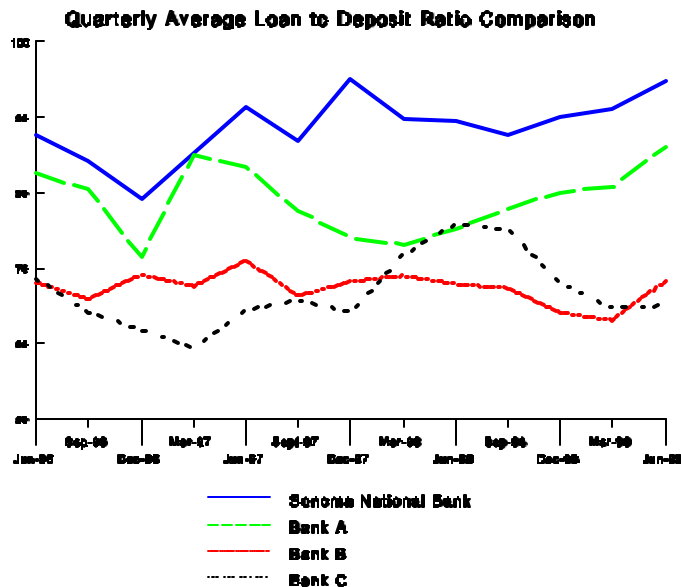
Our evaluation of the bank's lending performance is based upon loans originated since June 30, 1996. The bank is primarily a business lender providing commercial real estate, real estate construction and general purpose business loans. We determined that an analysis of these three categories of loans represents the most meaningful information for our evaluation. Management does not prepare reports detailing originations, therefore we selected a random sample of 60 business loans originated since the last evaluation. Management maintains census tract information on all loans which we used in our analysis after testing the information for accuracy.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### *Loan to Deposit Ratio:*

#### **C The bank's loan to deposit ratio exceeds the standards for satisfactory.**

We evaluated the bank's quarterly average loan-to-deposit ratio from June 1996 to June 1999. We then compared this ratio to three financial institutions with headquarters in the assessment area, and with total assets between \$180 million and \$440 million. The bank's ratio averaged 91%, which is well above the 71% average of the three peer banks.



The chart to the left shows the quarterly average loan to deposit ratio of Sonoma National Bank and the three peer banks.

***Lending in the Assessment Area:***

**C The bank meets the standards for satisfactory performance in this area. Based on our sample, the bank originated a majority of loans in the assessment area.**

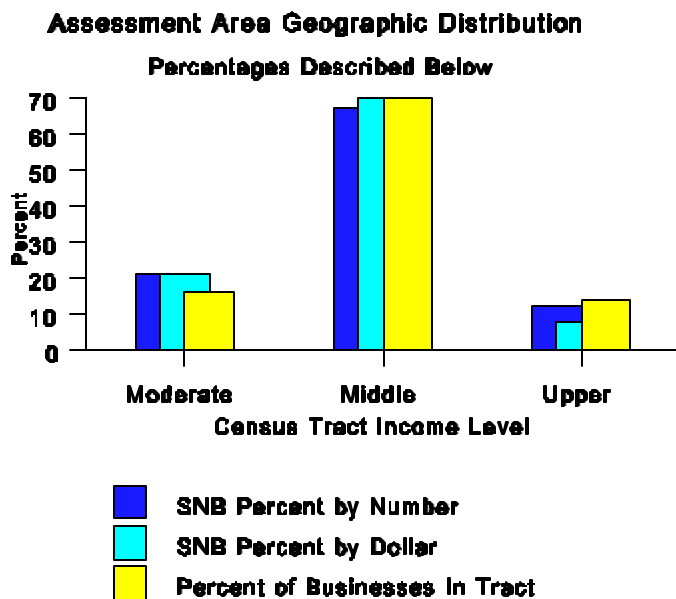
As illustrated in *Table 2* below , 70% of the number and 66% of the dollar amount of the loans in our random sample were made inside the assessment area.

LENDING INSIDE AND OUTSIDE THE ASSESSMENT AREA				
Location	Number of Loans		Dollar Amount of Loans \$(000's)	
	Number	Percent	\$	Percent
In AA	42	70%	22,876	66%
Out of AA	18	30%	11,874	34%
Total	60	100%	34,750	100%

Table 2

***Geographic Distribution of Loans***

**C The geographic distribution of sampled loans within the assessment area is reasonable.**





The dispersion of loans within the assessment area is reasonable and compares satisfactorily to the area's demographics, as illustrated in the above chart. We determined the census tract income level for the sampled loans within the assessment area. We found that 21% of the number and 21% of the dollar volume were to businesses in moderate income census tracts. This is reasonable considering 16% of the businesses are located in moderate tracts and these tracts comprise 13% of the assessment area (see *Table 1 and Table 3* for details). While there were some census tracts within the assessment area with no loans, these census tracts include moderate, middle and upper income tracts. We found no evidence of arbitrary exclusion of moderate income census tracts.

<b>ASSESSMENT AREA GEOGRAPHIC DISTRIBUTION</b>					
<b>Income Level of Census Tract</b>	<b>Businesses in Tract*</b>	<b>Penetration by Number of Loans</b>		<b>Penetration by Dollar Amount of Loans (000's)</b>	
	<b>Percent</b>	<b>Number</b>	<b>Percent</b>	<b>\$</b>	<b>Percent</b>
Low Income	0%	0	0%	0	0%
Moderate Income	16%	10	21%	5,168	21%
Middle Income	70%	27	67%	15,783	70%
Upper Income	14%	5	12%	1,925	8%
N/A	0%	0	0%	0	0%
<b>Total</b>	<b>100%</b>	<b>42</b>	<b>100%</b>	<b>22,876</b>	<b>100%</b>

**Table 3** \*1999 Dun and Bradstreet Business Demographic Data

***Distribution of Credit Within the Assessment Area by Business Revenue***

**C Distribution of credit among businesses of different sizes is reasonable and meets the standards for satisfactory performance.**

There is reasonable penetration of loans to businesses of different sizes. Dun and Bradstreet reports 91% of the businesses that reported income had gross revenues less than \$1 million. Of the 42 loans in the assessment area, 81% were to businesses with less than \$1 million in gross revenue.

<b>LOANS TO BUSINESSES OF DIFFERENT SIZES</b>						
<b>BUSINESS REVENUE</b>	<b>BUSINESSES IN AA*</b>		<b>NUMBER OF LOANS</b>		<b>DOLLAR AMOUNT OF LOANS (000'S)</b>	
	<b>NUMBER</b>	<b>PERCENT</b>	<b>NUMBER</b>	<b>PERCENT</b>	<b>\$</b>	<b>PERCENT</b>
less than or equal to \$1	15,879	91%	34	81%	19,506	85%

<b>LOANS TO BUSINESSES OF DIFFERENT SIZES</b>						
	<b>BUSINESSES IN AA*</b>		<b>NUMBER OF LOANS</b>		<b>DOLLAR AMOUNT OF LOANS (000'S)</b>	
million						
greater than \$1 million	1,560	9%	8	19%	3,370	15%
Total	17,439	100%	42	100%	22,876	100%

**Table 4** \*Source: 1999 Dun & Bradstreet Business Demographic Data

## **OTHER ITEMS**

### ***Response to Complaints:***

Management has not received any complaints about the bank's CRA performance since the last CRA evaluation conducted in June 1996.

### ***Fair Lending Examination:***

We conducted a concurrent fair lending review focusing on auto loans made within the past year. We compared the terms provided to each borrower and did not identify any violations of the various anti-discrimination laws and regulations.