Comptroller of the Currency
Administrator of National Banks

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SMALL INSTITUTION EVALUATION

PUBLIC DISCLOSURE

August 2, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Sequoia National Bank
Charter Number 21337

65 Post Street
San Francisco, California 95104

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.**

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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 ***Sequoia National Bank*** *prepared by the* ***Office of the Comptroller of the Currency (OCC)****, the institution's supervisory agency,* ***as of August 2, 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 **"Satisfactory."** The factors supporting the bank's overall rating include the following:

- The bank's loan-to-deposit ratio is strong, benefitting from an infusion of capital in 1998. The ratio exceeds the standards for Satisfactory performance for this factor.

- Without the benefit of purchases of loans to generate volume, the bank's lending within the assessment area was only 44% by number and 26% by dollar volume. With the purchases included, 49% by number and 31% by dollar volume of the lending was within the area. These levels do not meet the standards for Satisfactory performance.

  The bank's current strategy is to concentrate on its own loan originations within the assessment area. Business development efforts are focused on San Francisco, with less reliance on participations puchased from loans originated outside the assessment area.

- A reasonable distribution of loans to businesses with different incomes, which meets the standards for Satisfactory performance for this factor.

- A reasonable distribution of loans to borrowers in low- or moderate-income census tracts, which meets the standards for Satisfactory performance for this factor.

DEFINITIONS OF TERMS APPLIED IN THIS PUBLIC DISCLOSURE

Loan Originations:

The number and full credit amount of loans and lines of credit at the time they were originated during the review period, even if they subsequently have been paid or matured. Includes loan participations by the bank. Renewals are excluded, except for increased availability.

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.

HMDA:

Abbreviation for “Home Mortgage Disclosure Act”.

LMI:

Abbreviation for “low- or moderate - income”. Characterizes geographies and families.

Median Family Income:

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

1999 HUD Median Family Income:

Updated U.S. Census Bureau data, determined by the Department of Housing and Urban Development for 1999.

MSA:

Metropolitan Statistical Area.

OCC:

Office of the Comptroller of the Currency (the bank's regulator).

DESCRIPTION OF INSTITUTION

Sequoia National Bank (Sequoia) is an independent community bank established in San Francisco in March 1986. As of June 30, 1999, the bank had **total assets of $16 million, loans of $10 million, and deposits of $12 million.** The main office is located in a low-income census tract in a retail neighborhood between the Financial District and Union Square. A second office was opened during August 1999 in an upper-income census tract in the Portola district of the city. Because the new office was opened the same week as the beginning of our examination, its lending activities are not considered in this evaluation.

The bank's lending focus is on loans for commercial real estate, small businesses and professional practices, and commercial construction. Business development efforts have emphasized the commercial area south of Market Street. Consumer lending accounts for 14% of the loan portfolio, supplemented by a small portfolio of residential loans and owner-occupied residential construction loans. Most of the bank's consumer borrowers are principals and employees of the business and professional customers.

For a snapshot view of the bank's loan portfolio, the following table shows loans outstanding as of June 30, 1999:

Loan Type as of 6/30/99	**$ 000**	**Percent**
Commercial Real Estate	3,752	36%
Commercial	3,034	29%
Construction & Development	1,584	15%
Consumer	1,469	14%
Real Estate, 1 - 4 Family	512	5%
Other	83	1%
Total Loans Outstanding	**$10,434**	**100%**

Source: Call Report data

The bank received a "Satisfactory" rating in its prior CRA evaluation, dated July 21, 1997. During the review period of that evaluation, the bank had financial constraints, including a poor capital position, which limited its ability to generate loans. The majority of the loans were outside the assessment area. However, in light of the bank's diminished capacity and its adequate performance in other criteria, the bank received the overall "Satisfactory" rating.

The bank no longer has a financial impediment. Its ability to generate loans was restored with an infusion of capital in April 1998. The bank operates in a highly competitive environment. It competes with several community banks with total assets of $100 million and below. The city also is dominated by branches of larger regional and multinational financial institutions.

DESCRIPTION OF ASSESSMENT AREA

Geographic Description

Sequoia defines its assessment area as the City and County of San Francisco. San Francisco is a port city situated on the northern tip of a peninsula bordered by the Pacific Ocean on the west, the Golden Gate on the north, San Francisco Bay on the east, and the San Mateo County line to the south. San Francisco is only a portion of the San Francisco MSA, which also includes San Mateo and Marin Counties. The city's geographic dimension is approximately 49 square miles.

Sequoia's assessment area meets the requirements of the regulation and does not arbitrarily exclude LMI geographies. According to 1990 Census data, San Francisco's 152 census tracts have a population of 723,959 persons.

Demographics, Economic Characteristics, and Credit Needs

Economic activity in recent years supports a high level of affluence in the assessment area. However, based on 1990 Census data, 42% of the population lives in LMI census tracts that represent 42% of total tracts. The low-income tracts are mostly adjacent in the northeastern quadrant of the city, including the Mission, Western Addition, and Tenderloin districts and a portion of Chinatown/ North Beach. Also, three low-income tracts are scattered in the southeast. The moderate-income tracts are dispersed primarily in the eastern half of the city.

The following table shows the composition of census tracts and population:

Census Tracts & Population within Assessment Area				
Income category of Census Tract	**# of Census Tracts**	**% of all Census Tracts**	**1990 Population**	**% of Population within Tract Income Category**
Low	23	15%	104,585	14%
Moderate	41	27%	202,079	28%
Middle	58	38%	318,688	44%
Upper	27	18%	97,995	14%
NA	3	2%	612	0%
Total	**152**	**100 %**	**723,959**	**100 %**

Source: 1990 Census data

The Census Bureau estimates the population of the city of San Francisco had grown by 3% to 754,774 at July 1, 1998, versus a 9.7% increase for all of California. According to 1990 Census data, the median family income was $49,282 for the San Francisco MSA. This is substantially higher than the $41,848 median for all MSA's in California. HUD median family income was updated in 1999 to $72,400.

LMI families account for 49% of total families (28% low-income and 21% moderate-income). This LMI proportion of total families is substantially higher than the 39% share of families in all California MSA's.

Employment data is available at the MSA level from the State of California Employment Development Department (EDD) for July 1999. The five largest employment sectors in the San Francisco MSA employ 78% of the civilian workforce: services (37%), retail trade (16%), government (12%), finance / insurance / real estate (10%), and transportation (8%). The seasonally non-adjusted unemployment rate for the city of San Francisco was 3.6%. This is significantly stronger than 5.6% for California and 4.3% for the United States.

Business lending opportunities are strong. Dun & Bradstreet economic reports show that 44,102 businesses operate within the bank's current assessment area. Of those with reported revenues, 87% have reported annual revenues of $1 million or less, including 77% with revenues of less than $500,000. Approximately 81% employ fewer than ten employees.

Meetings between federal banking regulators and community groups have determined the primary credit needs to be microloans (loans for less than $25,000 to small businesses) and short-term revolving lines of credit; consulting, coaching and teaching to small businesses; and job training, housing, job skills, and repairs to existing low-income homes.

We conducted one community contact for this examination. The interview was with the Mayor's Office of Community Development, which focuses on economic development other than housing. The primary needs identified by this office are the development and purchase financing of affordable small business space and live/work space, technical assistance for small businesses, and access to business capital by LMI entrepreneurs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Scope of Review

The review period for this evaluation is the 24-month period from August 1, 1997 to July 31, 1999. We used bank generated information which we tested for accuracy. The bank is primarily a business lender, with a moderate proportion of loan originations to consumers. We evaluated data for all of the loan originations in the following categories: commercial loans, construction and commercial real estate loans, and consumer loans. We did not evaluate the small number of other types of loans, including residential mortgages that were not required to be reported for HMDA because of their low volume.

During the first nine months of the review period, Sequoia was constrained by a low level of capital. The bank received additional capital of $5.4 million during April 1998. The lending volume escalated substantially after this event. Prior to the new capital, the bank originated seven loans (four commercial and real estate, three consumer), for a total of $645,000. During the 15 months after the new capital, the bank made 54 loans of the types we evaluated (43 commercial and real estate, 11 consumer), for a total of $16 million. This performance evaluation includes all originations of the identified loan types for the full review period: 61 loans for $16.6 million, of which 26 loans (43% by number) totalling $8.0 million (48% by dollar amount) were participations purchased.

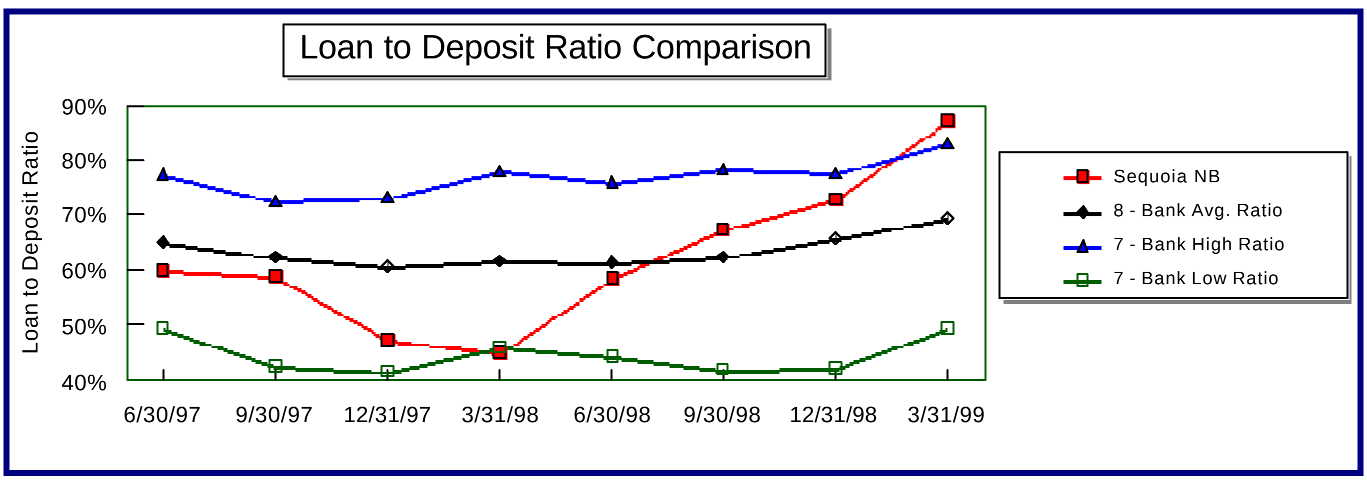
The bank made two bulk purchases of seasoned loan transactions during 1998 to make quick use of the new capital. One purchase involved eleven commercial and real estate loans and one consumer loan for a total of $2.1 million. The other purchase was one transaction for a total of $990,000 of receivables on a pool of automobile loans. Without these transactions, the total volume during the review period was 48 loans for $13.5 million. The role of the bulk transactions in this evaluation will be discussed in the relevant performance factors.

In addition to the bulk purchases, the bank purchased 13 loan participations for a total amount of $4.9 million. These were acquired from seven banks, both inside and outside Sequoia National Bank's assessment area.

Loan to Deposit Ratio

- **Sequoia's Loan-to-Deposit Ratio *exceeds the standards for Satisfactory Performance,* given the bank's size, financial condition, and assessment area credit needs.**

We evaluated the bank's loan-to-deposit ratio for eight quarters ending March 31, 1999. We then compared Sequoia's trend for this ratio to seven additional financial institutions with headquarters in the assessment area, and with total assets below $100 million.



The following chart compares Sequoia's quarterly loan-to-deposit ratio to the quarterly high and low ratios of the seven peer institutions:

Source: Call Report data

The trend of the average ratio has been relatively constant for the 8-bank peer group during the eight quarters, with a range of 61% to 70%. Sequoia's ratio was below average prior to the capital infusion during the second quarter of 1998, when it reached its low point of 45%. The trend then greatly accelerated as loan growth substantially exceeded deposit growth after the capital infusion. At March 31, 1999, Sequoia has the highest ratio at 87%, followed by the second-highest at 83%.

Lending within the Assessment Area

- **The proportion of Sequoia's lending within its assessment area *does not meet the standards for Satisfactory Performance.***
- **The bank's current strategy is to concentrate on its own originations within the assessment area. Business development efforts are focused on San Francisco, with less reliance on participations outside the assessment area.**

We reviewed and validated the bank's data on loan originations for the review period. We found 49% of the number and 31% of the dollar volume of loans to be within the assessment area. The 69% of loans by dollar amount that are not in the assessment area are mostly within a 100-mile radius from San Francisco. The out-of-area loans are dominated by loan participations, including the bulk purchases discussed below, and several other single-loan transactions.

Although more than a majority of commercial loans were within the assessment area, this loan category represents less than one-third of the bank's originations. The in-area performance is weaker for the bank's real estate related loans, which is demonstrated in the following table:

Loan Originations within Assessment Area
(Includes all Loan Participations)

	Commercial	Construction & Commercial RE	Combined Commercial & RE	Consumer	Total
Total Originations (#)	20	27	47	14	61
Total Originations ($ 000)	$4,650	$8,301	$12,951	$3,624	$16,575
# within Area	14	12	26	4	30
% within Area (#)	70%	44%	55%	29%	49%
$ 000 within Area	$2,830	$2,009	$4,839	$332	$5,171
% within Area ($)	61%	24%	37%	9%	31%

Source: Bank data

Despite the additional capital, the bank relied on loan growth outside its assessment area. Of the loans made before the capital infusion in April 1998, 43% by number and 19% by dollar volume were within the assessment area. After the new capital, 50% by number and 32% by dollar volume were within the assessment area.

The large portfolios that were acquired to make quick use of the new capital were distributed differently than the bank's main originations. The $2.1 million portfolio of seasoned commercial, real estate, and consumer loans was 82% within the assessment area by number of loans, and 79% by dollar volume. The $990,000 portfolio of automobile loan receivables was entirely outside the assessment area. Without these purchases, the bank's in-area lending was less than satisfactory with only 44% by number and 26% by dollar volume of the bank's lending in the assessment area. These percentages include several single-loan participations.

Lending to Businesses of Different Sizes and Individuals of Different Incomes:

Sequoia's lending to businesses of different sizes *meets the standards for Satisfactory Performance*. This conclusion is based on the context of the bank's size, resources, age, and competition.

A meaningful analysis could not be performed for consumer loans.

C ***Lending to Businesses of Different Sizes***

The proportion of sampled loans to small businesses is reasonable for the context of this bank.

Lending opportunities are strong, based on Dun & Bradstreet data for the assessment area. There are 37,195 businesses within the area. Of the businesses with reported revenues, 87% have reported annual revenues of $1 million or less, including 77% with revenues of less than $500,000. This sector of the business lending market is a strong focus of most lenders of any size with a presence in the assessment area.

We analyzed the bank's business lending according to the main loan types of commercial loans and real estate loans. The distribution of commercial loans is shown in the following table:

Businesses & Farms of Different Sizes: Lending Opportunities and the Bank's Lending Performance within Assessment Area — COMMERCIAL LOANS Including Purchase of Seasoned Portfolio						
Businesses & Farms with Reported Income:	**Opportunities Per Dun & Bradstreet**		**Bank's Originated Loans (By Revenue of Borrower)**			
	#	**%**	**# of Loans**	**% of Total #**	**Loans ($000)**	**% of Total $**
<= $250,000	NA	NA	8	57%	$1,150	41%
> $250,000 to < $500,000	NA	NA	3	21%	$950	34%
Subtotal < $500,000	28,780	77%	11	79%	$2,100	74%
>= $500,000 to < $1,000,000	3,644	10%	0	0%	$0	0%
Subtotal < $1,000,000	32,424	87%	11	79%	$2,100	74%
>= $1,000,000	4,771	13%	3	21%	$730	26%
Total with Reported Income	37,195	100%	14	100%	$2,830	100%

Source: Dun & Bradstreet data and bank data

Of the commercial loans within the bank's assessment area, we found that 79% by number and 74% by dollar volume were to small businesses (with revenues of $1 million or less). These shares were 77% and 64%, respectively, without the portfolio purchase. Although these levels are below the reported level of opportunities, the penetration is reasonable in the context of the bank's size, age, and competition. Loans to businesses with revenues of $250,000 or less represented 54% of the number and 40% of the dollar volume, excluding the portfolio purchase. This is a reasonable effort for the sector of the market that has been identified to have major credit needs.

Businesses & Farms of Different Sizes: Lending Opportunities and the Bank's Lending Performance within Assessment Area CONSTRUCTION & COMMERCIAL REAL ESTATE LOANS Including Purchase of Seasoned Portfolio						
Businesses & Farms with Reported Income:	**Opportunities Per Dun & Bradstreet**		**Bank's Originated Loans (By Revenue of Borrower)**			
	#	**%**	**# of Loans**	**% of Total #**	**Loans ($000)**	**% of Total $**
<= $250,000	NA	NA	8	67%	$1,310	65%
> $250,000 to < $500,000	NA	NA	2	17%	$281	14%
Subtotal < $500,000	28,780	77%	10	84%	$1,591	79%
>= $500,000 to < $1,000,000	3,644	10%	1	8%	$250	13%
Subtotal < $1,000,000	32,424	87%	11	92%	$1,841	92%
>= $1,000,000	4,771	13%	1	8%	$168	8%
Total with Reported Income	37,195	100%	12	100%	$2,009	100%

Source: Dun & Bradstreet data and bank data

Of the construction loans and commercial real estate loans within the bank's assessment area, we found that 92% by number and dollar volume were to small businesses (with revenues of $1 million or less). Without the portfolio purchase, 100% of the loans were to small businesses, and 80% were to businesses with revenues of $250,000 or less. The bank's size limits its access to a market dominated by large real estate transactions.

C ***Lending to Individuals of Different Incomes***

A meaningful analysis could not be performed for consumer loans.

During the review period, the bank originated fourteen consumer loans. Only four of these loans were in the assessment area. In addition, the automobile loan receivables purchase was entirely outside the assessment area.

Geographic Distribution of Loans

C **The geographic distribution of loan originations *meets the standards for Satisfactory Performance*. The dispersion of loans is adequately matched to the census tract proportions and business opportunities.**

For business loans within the assessment area, the following table shows the distribution of loans and opportunities by census tract income. Consumer loans are excluded because there were only four consumer loans in the assessment area during the review period.

Geographic Distribution of Loans Within Assessment Area COMBINED BUSINESS LOANS (Commercial, Construction, and Commercial Real Estate Loans) Including Portfolio Purchase						
Demographics			**Loan Originations 8/1/97 -7/31/99**			
Census Tracts		**% of Total Businesses in Census Tract ***	**# of Loans**	**% of Total #**	**Loans ($000)**	**% of Total $**
Low Income	15%	32%	8	31%	$1,875	39%
Moderate Income	27%	24%	4	15%	$733	15%
Middle Income	38%	25%	7	27%	$872	18%
Upper Income	18%	19%	7	27%	$1,359	28%
N/A	2%	0%	0	0%	$0	0%
Total	100%	100%	26	100%	$4,839	100%

* Businesses with reported income

Source: 1990 Census data; Dun & Bradstreet data; and bank loan data

The bank's loans are well distributed in the LMI census tracts of the assessment area. LMI tracts contain 56% of the businesses in the assessment area. The bank's business loans include 46% by number and 54% by dollar volume in the LMI tracts. Without the portfolio purchase, these shares are 53% and 70%, respectively.

OTHER ITEMS

Response to Complaints:

Neither the bank's management nor the OCC have received any complaints about the bank's CRA performance since the last evaluation conducted in July 1997.

Fair Lending Examination:

The bank is in compliance with anti-discrimination laws and regulations. These include the Equal Credit Opportunity Act (ECOA) and The Fair Housing Act. The bank is not subject to the Home Mortgage Disclosure Act (HMDA). There was an insufficient number of consumer loans made during the review period to perform a comparative file analysis to determine discrimination on any prohibited basis. Policies and procedures were reviewed and found to be in compliance with fair lending laws and regulations.