



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**July 22, 2002**

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

**Kaweah National Bank  
Charter Number 22832**

**500 West Main Street  
Visalia, CA 93278**

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

**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.**

## TABLE OF CONTENTS

<u>GENERAL INFORMATION AND INSTITUTION'S CRA RATING</u> .....	1
<u>DESCRIPTION OF INSTITUTION</u> .....	2
<u>DESCRIPTION OF ASSESSMENT AREA</u> .....	2
<u>CONCLUSIONS ABOUT PERFORMANCE CRITERIA</u> .....	5

## 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 Kaweah National Bank, prepared by The Office of the Comptroller of the Currency, as of July 22, 2002. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

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

Kaweah National Bank (KNB) satisfactorily meets the credit needs of its assessment area, including low- and moderate-income areas, consistent with its resources and capabilities. The following supports this rating:

- The loan-to-deposit is reasonable given the bank's size, financial condition and assessment area credit needs.
- The bank's lending in the assessment area meets the standard for satisfactory performance. A majority of its loans are within its assessment area.
- The bank's distribution of loans to businesses of different sizes reflects, given the demographics of the assessment areas, reasonable penetration among businesses of different sizes by number of loans and adequate penetration by dollar volume.
- The bank's distribution of loans to borrowers of different income reflects reasonable penetration among low-income individuals by dollar and number, but poor penetration among moderate-income individuals by dollar and number, given the demographics of the assessment areas.
- The bank's geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- Community development lending, investments and services are good, enhancing the bank's record of meeting the needs of its community.

## DESCRIPTION OF INSTITUTION

Kaweah National Bank is an independently owned full-service community bank headquartered in Visalia, California. The bank, established in 1991, converted from a Thrift & Loan Association in February 1995, and provides full service banking through its headquarters office and three branches in Tulare and Kern Counties. ATM services are available at each location. Since the last examination, KNB opened two full service branch offices in Porterville (opened October 26, 1998) and McFarland (opened August 16, 1999), and two Loan Production Offices in Fresno (opened May 3, 1999) and Hanford (opened October 1, 2001). As of March 31, 2002, Kaweah National Bank had total assets of \$80 million with \$61 million in loans, which represents net loans to total assets of 76%.

KNB’s corporate structure has not changed. The bank focuses its lending activity to commercial real estate and business loans, although consumer and other products are also available.

There are no legal or financial circumstances impeding the bank’s ability to help meet the credit needs of the community. The bank’s CRA performance was previously evaluated in April 6, 1998, and found to be “**Satisfactory**”.

**Types of Loans Outstanding**

<b>Loan Type</b>	<b>\$(000's)</b>	<b>Percent</b>
Commercial Real Estate Loans	27,865	46%
Commercial Loans	9,170	15%
Residential Real Estate Loans	8,706	14%
Construction Loans	7,822	13%
Consumer Loans	6,701	11%
Other Loans	887	1%
<b>Total</b>	<b>61,151</b>	<b>100%</b>

Source: 03/31/02 Report of Condition

## **DESCRIPTION OF ASSESSMENT AREAS**

Management and the board have designated two assessment areas consisting of 67 contiguous census tracts. The first assessment area consists of the entire county of Tulare, which comprises the Visalia-Tulare Metropolitan Statistical Area (MSA). This MSA contains 54 census tracts. The bank designated 13 of the 163 census tracts in Kern County, which is located in the Bakersfield MSA, as the second assessment area. Management and the board did not include the entire Bakersfield MSA, as the resulting area would have been too large for the bank to adequately serve with only one office. The assessment areas meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income geographies.

The population of the combined assessment area is 374,463 and the agricultural industry is the center of activity.

### **Visalia-Tulare MSA Assessment Area**

The first assessment area includes the entire county of Tulare and contains 54 census tracts, which were determined by the 1990 U.S. Census. These census tracts comprise the Visalia-Tulare Metropolitan Statistical Area (MSA). The main office and two branches are located in

## Tulare County.

According to the 1990 U.S. Census, the population of the assessment area is 311,921 and the percent of owner occupied housing is 54.81%. Of the 215,356 families in this assessment area, 22% are low-income, 18% are moderate-income, 20% are middle-income, and 40% are upper-income. The city of Visalia is located in Tulare County, and is the largest city in the county. The California Department of Economics indicates that the city serves as a regional service and retail center for the surrounding areas.

Visalia's economy is currently subjected to wide spread job losses as a result of retail and service industry job cuts. The unemployment rate in Visalia is currently at 15.4%, as of February 2002, the second highest unemployment rate in California, according to the California Department of Labor and Finance. Major employers are Kaweah Delta District Hospital, Porterville Developmental Center, Valley Children's Hospital and College of the Sequoias.

According to one community contact from the Community Development Corporation, the high unemployment rate illustrates the local economy's response to weak business and consumer spending. However, the contact indicated that providing low cost housing and technical assistance in Tulare County would rejuvenate the area.

KNB faces strong competition from 18 banks operating within the assessment area. KNB ranks 11th in deposit market share with 2.47%. The three largest banks hold a total of 52% of the market share. The competing institutions include, in part, Bank of America, Bank of the Sierra, Wells Fargo Bank, California Federal Bank, Union Bank of California, Fremont Investment & Loan, and Washington Mutual.

The following table highlights the demographic composition of the bank's assessment area.

<b>Demographic and Economic Characteristics of the Visalia-Tulare MSA</b>	
<b>Population</b>	
<b>Number of Families</b>	77,542
<b>Geographies</b>	
<b>Number of Census Tracts</b>	54
<b>% Low-Income Census Tracts</b>	0%
<b>% Moderate-Income Census Tracts</b>	25.93%
<b>% Middle-Income Census Tracts</b>	48.15%
<b>% Upper-Income Census Tracts</b>	24.07%
<b>% N/a</b>	1.85%
<b>Median Family Income (MFI)</b>	
<b>1990 MFI for AA</b>	\$27,900
<b>2001 HUD Updated MFI</b>	\$36,800
<b>Economic Indicators</b>	
<b>Unemployment Rate</b>	4.57%
<b>1990 Median Housing Value</b>	\$75,936
<b>% of Families Below Poverty</b>	17.50%

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 1990 U.S. Census and 2001 HUD updated MFI.

## **Bakersfield MSA**

The second assessment area consists of 13 moderate-income census tracts in Kern County, which is designated as part of the Bakersfield MSA. These census tracts were determined by the 1990 U.S. Census. KNB's only branch is located in the city of McFarland and faces strong competition from six banks operating within the assessment area. KNB ranks last in deposit market share with 1.42%. The three largest banks hold a total of 77.88% of market share. This assessment area is the newest market for the bank. The competing institutions include, in part, Bank of America, Union Bank, Washington Mutual and Wells Fargo Bank.

According to the 1990 U.S. Census, the population of the assessment area is 64,542 and the percent of owner occupied housing is 50%. Of the 14,463 families in this assessment area, 33% are low-income, 26% are moderate-income, 19% are middle-income, and 22% are upper-income. According to the California Labor Market 2000 report, agricultural and petroleum are the two leading industries in this county.

According to one community contact that is involved with the Economic Revitalization Program through the Community Development Corporation for Kern County, the city of McFarland is the eighth largest city in Kern County with an estimated population of 9,925. In recent years, the city has experienced a significant amount of single-family residential growth, which is nearing land area build-out, with only approximately 5% of the land within its city limits vacant and available for new construction. Due to the lack of land in its city limits for new commercial and industrial development, and the tremendous growth occurring in the cities of Delano and Bakersfield, McFarland has experienced a significant decline in economic activity. This is evident in the downtown district, which contains many dilapidated vacant structures. The city has applied for a USDA Rural Business Enterprise Grant through the United States Department of Agriculture to help in revitalizing the downtown area. The contact indicated that there is a need for additional general banking and credit facilities to serve the city.

The following table highlights the demographic composition of the bank's assessment area.

<b>Demographic and Economic Characteristics of the Bakersfield MSA</b>	
<b>Population</b>	
<b>Number of Families</b>	<b>14,463</b>
<b>Geographies</b>	
<b>Number of Census Tracts</b>	<b>13</b>
<b>% Low-Income Census Tracts</b>	<b>0%</b>
<b>% Moderate-Income Census Tracts</b>	<b>100%</b>
<b>% Middle-Income Census Tracts</b>	<b>0%</b>
<b>% Upper-Income Census Tracts</b>	<b>0%</b>
<b>Median Family Income (MFI)</b>	
<b>1990 MFI for AA</b>	<b>\$21,875</b>
<b>2001 HUD Updated MFI</b>	<b>\$40,300</b>
<b>Economic Indicators</b>	
<b>Unemployment Rate</b>	<b>8.25%</b>
<b>1990 Median Housing Value</b>	<b>\$63,404</b>
<b>% of Families Below Poverty</b>	<b>22.26%</b>

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 1990 U.S. Census and 2001 HUD updated MFI.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Scope of Examination:**

We evaluated the bank's performance based on loans originated from April 6, 1998, through June 30, 2002. We focused our evaluation on the bank's primary product lines: commercial loans and commercial real estate loans, originated since the last CRA exam in Tulare County and consumer loans in Kern County. We randomly selected loans for our sample: 20 commercial, 20 commercial real estate, and 14 consumer loans. In addition to this sample, we reviewed all community development loans made since the last examination. We used the sampled loans and community development loans to review the bank's lending in its assessment areas, its geographic and income distribution of loans, and its overall CRA performance. Home mortgage and agricultural loan products were not selected in our sample since the bank is not a major mortgage or agricultural lender in this market

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

KNB's quarterly average loan-to-deposit ratio is reasonable given the bank's size, financial condition and assessment area credit needs. Since the last CRA exam, the bank's quarterly ratio averaged 80.52% over the previous 16 quarters ended March 31, 2002. The quarterly average ratio of similarly situated peer banks in its assessment area was 81.60% over the same time period. For purposes of this examination, we consider similarly situated banks to mean banks of similar asset size.

### **Lending in the Bank's Assessment Areas**

The bank's lending in its assessment areas meets the standard for satisfactory performance.

#### **Lending Within Its Assessment Areas (AA)**

	<b>No. of Loans</b>	<b>% by Number</b>	<b>Dollars</b>	<b>% by Dollars</b>
<b>Loans In AA</b>	45	83%	\$7,509,535	69%
<b>Loans Out of AA</b>	9	17%	\$3,324,041	31%
<b>Total</b>	54	100%	\$10,833,576	100%

Source: Sample of 54 loans originated from April 6, 1998 to June 30, 2002

A majority of the bank's loans and other lending-related activities are made to customers who reside within the bank's designated assessment areas. We sampled 54 loans since the last CRA examination, focusing on the bank's primary loan products. Of the 54 sampled, the percentage of loans originated by number and dollar amount to borrowers located within the assessment areas are 83% and 69%, respectively

(In the next two sections, the bank's primary product lines, commercial and commercial real estate loans, were grouped under the title "business loans" to evaluate the bank's performance in Tulare County. In the evaluation of lending in Kern County, we reviewed all consumer loans made since the last examination due to the low volume of loans.)

### **Lending to Businesses of Different Sizes**

The bank's distribution of loans to businesses of different sizes reflects, given the demographics of the assessment areas, reasonable penetration among businesses of different sizes by number of

loans and adequate penetration by dollar volume.

### Revenue Distribution - Business Loans (Tulare County)

Gross Revenues	Businesses in AA		Number of Loans Originated within AA		Dollar Volume of Loans Originated within AA	
	# of Businesses	% of Businesses	# of Loans	% of Number	Dollar Volume	% of \$ Volume
<\$1,000,000	9,928	86.70%	30	73%	\$5,394,787	60%
>\$1,000,000	851	7.43%	11	27%	\$3,635,895	40%
Not reported	671	5.86%	0	0	0	0%
Totals	11,450	100%	41	100%	\$9,036,682	100%

Source: 2001 Business Geodemographic Data and Sample of 41 loans originated within AA from January 1, 2000 to June 30, 2002

### Business Loans

Businesses with annual revenues of \$1 million or less are deemed to be small businesses. The percentage of small businesses within the Visalia-Tulare MSA is 86.70%.

Our analysis of business loans in this assessment area indicates the bank's effort to lend to small businesses closely reflects area demographics. Based on our sample, the bank originated a significant number of loans by number to small businesses. The resulting percentage of loans to small businesses by number and dollar volume was 73% and 60%, respectively. These results confirm the bank's commitment to meeting the community credit needs of businesses with revenues less than \$1 million, as well as those summarized by the community contacts under the description of the assessment area.

### Lending to Borrowers of Different Incomes

The bank's distribution of loans to borrowers of different income reflects reasonable penetration among low-income individuals by dollar and number, but poor penetration among moderate-income individuals by dollar and number, given the demographics of the assessment areas.

### Distribution of Consumer Loans to Borrowers of Different Incomes (Kern County)

Borrower Income Level	Percent of Families	Loan Dollars	Percent of Dollars	Number of Loans	Percent of Numbers
Low	31.09%	\$303,800	43%	4	29%
Moderate	23.53%	\$0	0%	0	0%
Middle	19.26%	\$35,000	5%	1	7%
Upper	26.12%	\$365,099	52%	9	64%
Total	100%	\$703,899	100%	14	100%

Source: 1990 US Census (STF3) and Sample of 14 Consumer Loans originated within AA from January 1, 2000 to June 30, 2002

### Consumer Loans

Distribution of consumer loans to low-income borrowers reflects reasonable penetration of loans. The percentage of low-income families within this assessment area is 31%. Based on our sample, 43% by dollar and 29% by number were to low-income families. Distribution of loans



to moderate-income borrowers reflects poor loan penetration. The percentage of moderate-income families within this assessment area is 24%, however, based on our sample, there were no loans made to moderate-income families. Management states that the bank did not receive any loan applications from moderate-income individuals that qualified. It was suggested that the bank make a stronger effort to communicate its continued willingness to lend to low- and moderate-income individuals in this assessment area.

Competition in this assessment area is strong. Out of the six banks that have a presence in this assessment area, KNB ranks last in deposit market share with 1.42%. KNB is the smallest bank by asset size and has the fewest branches. The other banks are larger, offer a wider range of products and have more total branches.

KNB has only been in this assessment area since 1999 and has faced many economic challenges. The primary reason KNB opened a branch in this assessment area is because no other financial institution had a presence and the City of McFarland needed a bank to service its community needs which are all low- to moderate-income individuals. While the bank recognized the opportunity in the City of McFarland, the bank opened a LPO office in Fresno, which is located in Fresno County, outside the bank's assessment area. KNB plans to increase their presence in the city of McFarland and in the neighboring cities, such as Delano, by leveraging off the LPO to target businesses and consumers in these areas.

### Geographic Distribution of Loans

Based on our sample, the bank's geographic distribution of loans reflects reasonable dispersion throughout the assessment areas. There are no gaps in the bank's distribution of loans. The analysis reflects lending in all tracts in the bank's assessment area. There are no low-income geographies in the bank's assessment areas.

#### Geographic Distribution of Business Loans (Tulare County)

Tract Income Type	Businesses in Assessment Area		Number of Loans Originated within AA		Dollar Volume of Loans Originated within AA	
	# of Businesses	% of Businesses	# of Loans	% of Number	Dollar Volume	% of Dollar Volume
Low	0	0%	0	0%	\$0	0%
Moderate	3,418	29.85%	7	17.07%	\$3,087,100	34.17%
Middle	4,880	42.62%	19	46.34%	\$3,205,079	35.47%
Upper	3,152	27.53%	15	36.58%	\$2,738,503	30.31%
Totals	11,450	100%	41	100%	\$9,035,682	100%

Source: 2001 Business Geodemographic Data and Sample of 41 loans originated within AA from January 1, 2000 to June 30, 2002

As shown in the table above, the bank's distribution of business loans by the percentage of number of loans and dollar volume of loans originated in the moderate-income geographies was 17% and 34%, respectively. Although the number of loans does not compare favorably to the business demographics of 29.85%, the dollar volume of loans originated within the moderate-income geography exceeds the area demographics. However, in a review of the moderate-income census tracts in this assessment area, a majority of the moderate-income census tracts are

located in the northern and southern sections of the county where the bank has no presence. In those moderate-income census tracts around KNB, the opportunities to lend in these areas are rather limited, given its competition.

KNB is aware of the opportunity in this area, but faces competition with 10 other banks that are larger and have more branches. KNB has only 2.47% of the deposit market share. To increase its market presence, KNB opened a branch in Porterville, which is located in Tulare County, and opened a new real estate LPO in the city of Hanford in Kings County since the last CRA examination. Although this LPO is located outside of the bank's assessment area, it covers a large area. This expansion of the LPO and new branch office is aimed at meeting the needs of the bank's community as well as increasing the bank's market presence.

### **Geographic Distribution of Loans in Kern County**

Because of the high concentration of moderate-income tracts in this assessment area, the geographic distribution is not meaningful to the overall analysis.

### **Community Development Activities**

The level of community development lending, qualified investments, and services is good and enhances the bank's **SATISFACTORY** rating.

### **Community Development (CD) Loans**

KNB's record of community development lending is excellent. We reviewed all of the bank's community development lending since the last examination. Since the last examination, the bank originated and funded one CD loan totaling \$1.9 million in commitment of which \$1.85 million is outstanding as of March 31, 2002. This represents 32% and 31% of the bank's Tier 1 capital, respectively.

This CD loan was made to a non-profit public benefit organization, incorporated in the State of California, that provides community services to low- and moderate-income individuals. The proceeds of this loan went to establish in-prison programs that target substance abuse criminals in prisons under the California Department of Corrections. These programs benefit adult male inmates and parolees by providing therapeutic services and technical assistance that helps redirect their lives and helps them find employment.

### **Community Development Investments**

KNB has a satisfactory record of community development investments, consisting of monetary donations and grants. We reviewed all of the qualified investments. The bank made \$4M in donations targeted to low- or moderate-income individuals.

### **Community Development Services**

KNB's participation in community development services is excellent and enhances the bank's record of serving the needs of its community. We reviewed all of these activities. Members of the bank's senior management use their financial and banking expertise to provide technical

assistance to various organizations, which help low- and moderate-income individuals. Below are some examples:

- The bank's Chief Executive Officer (CEO) serves on the Board and provides technical assistance to an organization that is dedicated to improve the lives of low-income residents in the San Joaquin Valley through housing and related services
- KNB opened a full service branch in Kern County in the city of McFarland in 1999, which is comprised of moderate-income census tracts only. The primary reason KNB opened a branch in this area is because Wells Fargo had closed the only branch of a financial institution in this city in 1997, and the city of McFarland solicited financial institutions to open an office in its community. The bank recognized that this would be a special effort on its part, but wanted to serve the needs of the community. By responding to this request, KNB was able to provide its financial services to predominately low- to moderate-income individuals, of which 22% of the households are below poverty level and 8.25% are unemployed in this assessment area.

### **Responses to Complaints**

No consumer complaints associated with the bank's performance under the provisions of the CRA have been made since the last examination.

### **Record of Compliance with Antidiscrimination Laws**

An analysis of four years of public comments and consumer complaint information was performed based on our risk-based assessment of Fair Lending. Based on our analysis of this information, we determined that a comprehensive fair lending examination would not need to be conducted in connection with this CRA evaluation. The latest comprehensive fair lending examination was performed in 1998. The objective of this examination was to determine the bank's compliance with fair lending laws and regulations. There were no violations of the substantive provisions of the anti-discrimination laws and regulations identified. Based on this review, it was determined that the bank's compliance with fair lending laws is satisfactory.