

PUBLIC DISCLOSURE

June 7, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Douglas National Bank
Charter Number 14860**

**605 South East Kane Street
Roseburg, Oregon 97470**

**Comptroller of the Currency
Seattle Field Office
1000 2nd Avenue, Suite 3300
Seattle, Washington 98104**

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.

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 **Douglas National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of June 7, 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**”.

Douglas National Bank's record of meeting the credit needs of its assessment area is satisfactory. A substantial majority of the bank's loans are made within the assessment area. The bank's loans are reasonably distributed to individuals of different income levels and to businesses and farms of different sizes. Lending patterns show a good dispersion of loans in moderate-income geographies. The loan-to-deposit ratio is reasonable. There was no evidence of discriminatory or disparate treatment noted during this examination. The bank has not received any complaints regarding CRA performance since the last examination.

DESCRIPTION OF INSTITUTION:

Douglas National Bank (DNB) is a \$120 million community bank serving the general banking needs of the residents of Douglas County, Oregon. The bank is a wholly owned subsidiary of United Bancorporation, a bank holding company. DNB, along with the recently formed Douglas Mortgage Company, are the primary assets of the holding company.

DNB has eight locations, seven of which are full service. The main bank is located in downtown Roseburg, Oregon. Two branches are in Roseburg, one limited service and one full service. Four full service branches are located in the communities of Winston, Sutherlin, Glide, and Drain. The bank also has six automated teller machines located at the branches and main bank. In April 1999, DNB opened a branch in the city of Medford, which is located in Jackson County, Oregon. Since the Medford branch opened within 60 days prior to this evaluation, we did not assess its lending performance. This Performance Evaluation only includes the Douglas County assessment area.

The bank's lending focus is primarily business and commerce. DNB also offers agriculture and consumer loans. The bank provides its customers access to long term residential mortgage loans through brokerage activities on behalf of another financial institution. The newly formed mortgage company is now providing residential real estate loans in addition to the brokerage activities conducted by the bank.

As of June 7, 1999, net loans represented 38% of total assets. Commercial and commercial real estate loans represented approximately 74% of the outstanding loan portfolio, residential real estate secured loans totaled 10%, personal consumer loans represented 12% of the bank's loans, and agricultural loans comprised 4% of the portfolio.

No legal or financial impediments exist that affect the bank's ability to meet the credit needs of its assessment area. The bank received a "Satisfactory" rating at its previous CRA examination dated December 6, 1996.

DESCRIPTION OF ASSESSMENT AREA:

Douglas County is located in southwestern Oregon and is sparsely populated. The population was 94,649 residents as of the 1990 U.S. Census. The county covers an area of 5,070 square miles, of which 2.8 million acres is commercial forest lands. Over half the land is owned by the federal government and is managed by the U.S. Forest Service and the Bureau of Land Management.

Timber-related activities have historically been a major source of employment in Douglas County, followed by medical care and light manufacturing. High technology manufacturing and high value services are gaining a foothold in the economy. Oregon Economic Development statistics show that

Douglas County's unemployment rate for 1997 was 7%, compared to 4.7% overall in the state. Growth for the past few years has been concentrated in the Portland, Eugene, and Medford areas.

The bank's assessment area includes portions of Douglas County and consists of 17 block numbering areas (BNAs). The bank designated these BNAs as their lending area because they have offices located in these areas, and historically the majority of its business comes from these areas. The southern portion of Douglas County including the communities of Riddle, Glendale, Canyonville, and Tiller is excluded and the northwestern portion of Douglas County containing the city of Reedsport is also excluded.

Based on U.S. Census Bureau information, the Douglas County assessment area does not have any low-income geographies. Two are moderate-income geographies, 11 are middle-income and 4 are upper-income geographies. The assessment area meets the requirement of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

DNB's competition in the Douglas County assessment area is strong. There are five banks, three of which are regional banks with numerous branches. The assessment area also has five credit unions.

Our contacts with community organizations indicate that banks are meeting area credit needs. Several local development organizations also specialize in assisting with start-up and expansion of new businesses throughout Douglas County.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

DNB's loan-to-deposit ratio is reasonable. A 10-quarter average loan-to-deposit ratio for the bank is 55%. Banks similarly situated in size and location in western Oregon communities averaged from 62% to 69%. Strong area competition for small business loans is a major factor affecting the ratio. However, in 1998, DNB provided an additional \$18 million in residential real estate loans through the brokerage arrangements it has with area financial institutions. If these loans were reported by the bank, its loan-to-deposit ratio would increase.

Lending in Assessment Area

The bank originates a substantial majority of loans within its assessment area. We reviewed bank-prepared reports showing the geographic location of the total loan portfolio. These reports indicate that 91% of the bank's entire loan portfolio was extended to borrowers located in the assessment area. We sampled loan files and verified that bank reports identified loan locations correctly. Since January 1997, 90% of loans made are to borrowers in the assessment area.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank’s lending patterns show a reasonable distribution of loans to individuals of different income levels and to farms and businesses of different sizes. We reviewed a sample of 20 consumer loans originated from January 1, 1997, to April 30, 1999, and compared the borrower’s income with the 1997 updated Oregon non-MSA median-family income of \$36,500. By number of loans, 35% of the sampled loans were made to low- and moderate-income borrowers. This compares reasonably to area demographics, where 40% of families are low- and moderate-income.

We also reviewed a sample of 20 consumer real estate loans (including home improvement, home equity, and home purchase) originated from January 1, 1997, to April 30, 1999, and compared borrower income to the updated median-family income. Approximately 25% of the number of loans sampled were to low- and moderate-income borrowers and is reasonable compared to area demographics.

Based on our combined sample of 40 consumer and real estate loans, 15% of the dollar amount and 33% of the number of loans were made to low- and moderate-income borrowers. This distribution represents a reasonable record of meeting the credit needs of low- and moderate-income families when taking into account that the bank’s primary lending is to businesses. The combined consumer and real estate sample results are summarized on the following table.

LENDING TO INDIVIDUALS OF DIFFERENT INCOME LEVELS					
Borrower Income Designation	Percent of Families in the Assessment Area*	Number of Loans in Sample	Percent of Loans in Sample	Dollar Amount of Loans in Sample	Percent of Dollar Amount in Sample
Low	20	4	10	36,700	4
Moderate	20	9	22	94,900	11
Middle	24	10	25	237,600	27
Upper	36	17	43	520,200	58
Total	100	40	100	889,400	100

*According to 1990 U.S. Census

DNB makes a majority of its commercial and agricultural loans to small businesses and farms. We reviewed a sample of 24 commercial and agricultural loans originated during the period of January 1, 1997, to April 30, 1999. Based on our sample, the bank makes a large majority of its commercial and

agricultural loans to borrowers with less than \$500,000 in annual gross revenues. The sample indicated that the bank made 84% of its originations to commercial or agricultural borrowers with annual gross incomes of less than \$500,000. The following table summarizes the results of this review.

LENDING TO BUSINESSES AND FARMS OF DIFFERENT SIZES		
Commercial/AG Borrower Annual Gross Revenues	Number of Loans in Sample	Percent of Total Originations in Sample
\$0 to \$100,000	7	30
\$100,001 to \$500,000	13	54
\$500,001 to \$1,000,000	2	8
Over \$1,000,000	2	8
Total	24	100

Geographic Distribution of Loans

The bank’s lending patterns show a good dispersion of loans in moderate-income geographies. We reviewed the distribution of the sampled consumer and real estate related loans the bank originated from January 1, 1997, to April 30, 1999. Based on our review, about 13% of our total consumer and real estate sample was made to borrowers living in moderate-income areas. This compares favorably to the total percentage of families living in moderate-income BNAs, which is 12%. In fact, loan dispersion throughout all income levels in the assessment area mirrors the area demographics. The following table summarizes the results of this analysis.

GEOGRAPHIC DISTRIBUTION OF LOANS			
Income Characteristic of BNA	Loan Sample		Percent of Assessment Area Families Residing in Designated BNA
	Number of Total Loans	Percent of Total Loans	
Low	0	0	0
Moderate	5	13	12
Middle	26	67	68
Upper	8	20	20

Total	39	100	100
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Response to Complaints

The bank has not received any written complaints regarding its CRA performance since the prior CRA examination.

Record of Compliance with Antidiscrimination Laws

Our concurrent fair lending review did not find any evidence of illegal discrimination or disparate practices intended to discourage applicants from applying for credit. We reviewed a sample of consumer instalment loans and tested for discrimination on the basis of the sex of the applicant.