



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 23, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Northern California National Bank
Charter Number 24626

1717 Mangrove Avenue, Suite 100
Chico, CA 95926-0000

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.

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

- NCNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the credit needs of the community.
- The bank's lending in the AA exceeds the standard for satisfactory performance.
- The bank's distribution of loans to businesses of different sizes reflects reasonable penetration, given the demographics of its AA.
- The bank's geographic distribution of loans reflects excellent dispersion throughout the AA.
- There have been no written complaints regarding the bank's performance in meeting its community's credit needs.

SCOPE OF EXAMINATION

We evaluated the bank's performance based on loans originated from March 28, 2006 (charter date), through September 30, 2008. We focused our evaluation on the bank's primary product lines, non-residential real estate and commercial. For the purposes of this examination, we combined both under one category (business loans). Home mortgage and agricultural loan products were not selected to be reviewed since the bank is not a major mortgage or agricultural lender in this market. We randomly selected 20 business loans for our sample to review the bank's lending in its AA.

DESCRIPTION OF INSTITUTION

NCNB was chartered on March 28, 2006. As of September 30, 2008, NCNB had total assets of \$65 million, with \$26 million in loans. The bank's net loans represent 40% of total assets. NCNB is headquartered in Chico, CA, which is located in Butte County. NCNB operates one full service branch at its headquarters in Chico, CA, with no other branches.

NCNB focused its lending activity on non-residential real estate and commercial loans, although residential real estate and agricultural loans are also available.

There are no legal or financial circumstances impeding the bank's ability to help meet the credit needs of the community. This is the first CRA examination since the bank opened its doors.

Table 1

| NORTHERN CALIFORNIA NATIONAL BANK LOAN PORTFOLIO COMPOSITION | | |
|---|-----------------|----------------|
| Loan Type | \$ Volume (000) | % of Portfolio |
| Non Residential RE | 10,458 | 39 |
| Commercial | 9,570 | 36 |
| Residential RE | 3,088 | 12 |
| Agricultural | 3,207 | 12 |
| Other | 202 | 1 |
| Total Loans | 26,525 | 100 |

Source: Call Report as of 9/30/08

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

DESCRIPTION OF ASSESSMENT AREA(S)

Management and the Board have designated the Chico metropolitan statistical area (MSA), which includes all census tracts located in Butte County, as their AA. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geography.

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 representative of the local business group. The contact felt local banks were doing a good job of investing in the community.

The Chico Assessment Area

The AA consists of 42 census tracts in Butte County, which were determined by the 2000 U.S. Census. The City of Chico serves as the county seat of Butte County. Butte County is located 80 miles north of Sacramento, with a total population of 203,171.

According to Moody’s Economy.com for 2008, Chico’s economy is showing signs of recession, with an unemployment rate of 9.7%, its highest since 1995. House prices are expected to continue to fall for at least another year. Through third quarter 2008, house prices declined 23% from their peak in 2005. Chico’s economic expansion is expected to remain weak until late 2009. The state’s deteriorating fiscal situation has dramatically increased downside risk to the public sector employment. The major employers in the area are Enloe Medical Center and California State University – Chico. Chico’s economy is expected to perform in line with the nation’s economy over the long term, but is expected to outperform the state economy.

The following table highlights the demographic composition of the NCNB AA.

Table 2

| CHICO AA COMPOSITION | | | | | | |
|--|--------------------------|----------------|-----------------------|----------------|---------------------|----------------|
| INCOME CHARACTERISTICS OF CENSUS TRACTS, BUSINESSES AND FAMILIES | | | | | | |
| Income of Census Tract | # and % of Census Tracts | | # and % of Businesses | | # and % of Families | |
| Low Income | 1 | 2.38% | 68 | 0.47% | 561 | 1.13% |
| Moderate Income | 10 | 23.81% | 4,043 | 27.83% | 9,627 | 19.35% |
| Middle Income | 23 | 54.76% | 6,805 | 46.84% | 27,587 | 55.46% |
| Upper Income | 8 | 19.05% | 3,612 | 24.86% | 11,965 | 24.06% |
| N/A | 0 | 0% | 0 | 0% | 0 | 0% |
| Total: | 42 | 100.00% | 14,528 | 100.00% | 49,740 | 100.00% |

Source: 2007 Dun & Bradstreet

The three largest employment sectors in the bank's MSA employ 54.6% of the workforce: government (24%), education (17.1%), and retail (13.5%), according to the 2008 Business Geodemographic Data.

There are 14,528 businesses that operate within this AA. Of those, approximately 72% have reported annual revenues of \$1 million or less. Approximately 74% employ fewer than ten people. The weighted average of median family income is \$41,758, and the weighted average of median housing is \$115,291.

Competition in the area is strong with 13 banks operating within Butte County. NCNB ranks 11th in deposit market share with 1.54%. The six largest banks hold 86.69% of the deposit market share. Other area banks include Bank of America, Tri Counties Bank, Wells Fargo Bank, and Butte Community Bank.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

NCNB's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and the credit needs of the community. Average LTD ratios were computed over the last 10 quarters (June 2006 to September 2008). NCNB's average LTD ratio is 42.59%. We found only one other institution similar in size and location to NCNB, and found an average quarterly LTD ratio of 57.41%. Although NCNB's LTD ratio is lower than the peer bank, management explained that this is due to their being a conservative de novo bank and their strategy is to have prudent, slower, higher quality loan growth. The demand for such loans is low. The assets of the peer bank are \$74.8 million, as opposed to the assets of the NCNB, which are \$65.4 million.

Lending in Assessment Area

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

Table 3

| NORTHERN CALIFORNIA NATIONAL BANK | | | | | | | | |
|-----------------------------------|-----------------|-----------|----------|-----------|------------------|-----------|----------------|----------|
| Loan Type | Number of Loans | | | | Dollars of Loans | | | |
| | Inside | | Outside | | Inside | | Outside | |
| | # | % | # | % | \$ | % | \$ | % |
| Business Loans | 18 | 90 | 2 | 10 | 4,553,893 | 92 | 380,000 | 8 |
| Totals | 18 | 90 | 2 | 10 | 4,553,893 | 92 | 380,000 | 8 |

Source: Sample of 20 business loans originated from March 28, 2006 to September 30, 2008

A majority of the bank's business loans are made within the bank's designated assessment area. Of the 20 loans sampled, the bank originated 18 loans, or 90%, of the number of loans to borrowers within its AA. Based on the dollar volume of loans, the inside ratio was 92%.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The bank's distribution of loans to businesses of different sizes reflects reasonable penetration, given the demographics of the AA.

Table 4

| CHICO AA | | | | |
|--|--------------|--------------|---------------------|-------|
| INCOME DISTRIBUTION OF LOANS TO BUSINESSES | | | | |
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/Unknown | Total |
| % of AA Businesses | 73% | 4% | 23% | 100% |
| % of Bank Loans in AA by # | 45% | 55% | 0% | 100% |
| % of Bank Loans in AA by \$ | 29% | 71% | 0% | 100% |

Demographic Data Source: 2007 Business Geodemographic Data.

Based on our sample of 20 loans, the percentage of loans to small businesses, as defined as businesses with revenues of less than or equal to \$1 million, within the bank's AA was 45% by number and 29% by dollar, as compared to area demographics of 73%. When we asked the bank if our sample was indicative of the bank's actual performance, they provided us with a spreadsheet that was created for a CRA audit, dated 12/31/2008. This spreadsheet included all loans in the bank's portfolio and included an analysis of loans to businesses of different sizes. It indicated that loans to businesses with revenues of less than \$1 million made up 64% of total loans. This is comparable to area demographics. We verified the integrity of the data during our review.

Geographic Distribution of Loans

Based on our sample, the bank's geographic distribution of loans reflects excellent dispersion throughout the AA. The bank did not penetrate all census tracts within its AA. However, we found no conspicuous gaps in the bank's distribution of loans.

Table 5

| CHICO 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 | 0 | 0 | 28 | 35 | 47 | 15 | 25 | 38 |

Demographic Data Source: 2007 Business Geodemographic Data

As shown in the table above, the bank's distribution of business loans originated in low-income geographies, by the percentage of number of loans, was zero, meeting area demographics. The bank's distribution of business loans originated in the moderate-income geographies, by percentage of number of loans, was 35%. The percentage of loans in this geography exceeds area demographics of 28%.

Responses to Complaints

No written complaints concerning NCNB's CRA performance have been received since the bank opened on March 28, 2006.

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.