

## **PUBLIC DISCLOSURE**

May 27, 2008

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

First Northern Bank of Dixon  
Certificate Number: 3440

195 North First Street  
Dixon, California 95620

Federal Deposit Insurance Corporation  
25 Jessie Street at Ecker Square, Suite 2300  
San Francisco, California 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

I.	General Information.....	1
II.	Institution Rating .....	2
III.	Scope of Review .....	3
IV.	Description of Institution .....	4
V.	Description of Assessment Areas .....	6
VI.	Conclusions With Respect To Performance Criteria:	
	a. Lending Test .....	7
	b. Community Development Test.....	13
VII.	Conclusions With Respect To Performance Criteria for Assessment Areas Reviewed Using Full-Scope Procedures:	
	a. Sacramento Assessment Area .....	20
VIII.	Conclusions With Respect to Performance Criteria for Assessment Area Reviewed Using Limited-Scope Procedures:	
	a. Solano Assessment Area.....	26
IX.	Appendix – Glossary.....	27

## 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 **First Northern Bank of Dixon (FNBD)** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **May 27, 2008**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

## INSTITUTION RATING

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

**The Lending Test is rated: Satisfactory.**

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area (AA) credit needs.
- A substantial majority of loans are in the institution's AAs.
- The geographic distribution of loans reflects reasonable dispersion throughout the AAs.
- The distribution of borrowers reflects reasonable penetration among businesses and farms of different sizes, and individuals of different income levels.
- There have been no CRA-related complaints.

**The Community Development Test is rated: Outstanding.**

The institution's community development performance demonstrates excellent responsiveness to community development needs in its AAs through community development loans (CDLs), qualified investments, and community development services, considering the institution's capacity, need, and availability of such opportunities for community development in the institution's AAs. The growth and level of CDLs were the primary factors for the community development test rating.

## SCOPE OF REVIEW

This is the bank's first performance evaluation using "Intermediate Small Bank" procedures. CRA defines an Intermediate Small Bank as one that had total assets of at least \$265 million or more as of December 31 of the prior 2 calendar years, and less than \$1.066 billion as of December 31 of either of the prior 2 calendar years. An Intermediate Small Bank is evaluated using two tests: the lending test and the community development test. The lending test review procedures include an analysis of FNBD's lending inside its AAs, borrower's profile, geographic distribution of loans, LTD ratio, responsiveness to complaints, and compliance with anti-discrimination and credit practice laws.

The bank has collected and reported Home Mortgage Disclosure Act (HMDA), small business, and small farm loan data for 2006 and 2007. This data was used to analyze FNBD's lending inside its AA, borrower's profile, and geographic distribution of loans. In addition, a sampling of small farm and small business loans was conducted in order to further stratify loan distribution by gross annual revenues (GARs) for the borrowers' profile. This sampling used 90 percent confidence and 15 percent precision levels.

Dollar amounts were also reviewed for borrower's profile and geographic distribution. The data generally did not add to the analysis; therefore, the conclusions section does not include dollar amounts for these analyses. Small business lending is the bank's primary lending focus and comprised approximately 65 percent of the bank's total lending activities during the review period and received the greatest weight in this evaluation.

The community development test includes the review of CDLs, community development services, and community development investments. Analysis of community development activities included those since the last CRA review on April 11, 2005.

The bank operates 11 full-service branches within 2 AAs: the Sacramento-Arden Arcade-Roseville Metropolitan Statistical Area (MSA), referred to as the Sacramento AA; and the Vallejo-Fairfield MSA, referred to as the Solano AA.

The bank's activities in the Sacramento AA are weighted most heavily in this evaluation, given that this area contains the majority of the bank's banking offices, lending, investment, and service activities. Approximately 72 percent, by number, of the bank's total lending activities occurred within the Sacramento AA. Therefore, full-scope procedures were followed for the Sacramento AA and limited-scope procedures were followed for the Solano AA.

## DESCRIPTION OF INSTITUTION

FNBD, established in 1910, is a state-chartered, non-member commercial bank headquartered in Dixon, Solano County, California. The bank is wholly owned by First Northern Community Bancorp, a one-bank holding company also headquartered in Dixon. FNBD maintains no other affiliate relationships. At the last CRA evaluation on April 11, 2005, the bank was rated “Outstanding” based on “Large Bank” review procedures. FNBD conducts its operations primarily within Solano, Sacramento, Yolo, and Placer Counties. There has been one branch opened (Folsom) and one branch closed (Suisun City) since the last evaluation. While the Suisun City branch was located in a moderate-income tract, the Fairfield branch is located only one mile away. Therefore, the branch closing has not adversely affected the accessibility of its delivery systems. The bank currently operates a network of 11 full-service branches and 4 real estate loan production offices (LPOs). In addition, the bank has a Small Business Administration (SBA) Loan Department and an Asset Management and Trust Office Department operating at the Sacramento branch, and an Investment and Brokerage Services Office operating at the Folsom branch. The bank maintains nine automated teller machines (ATMs) at its branch offices. The following table provides the location, census tract (CT), and CT income level for the 11 full-service branches:

<b>Table 1 – Branch Office Information</b>		
LOCATION	CT	CT INCOME LEVEL
<b>SACRAMENTO AA</b>		
<i>Yolo County</i>		
48 West Main Street, Winters	0113.00	Middle
434 Second Street, Davis	0107.01	Middle
1300 Harbor Boulevard, West Sacramento	0102.03	Low
11 West Court Street, Woodland	0109.02	Moderate
<i>Sacramento County</i>		
700 J Street, Sacramento	5051.00	Middle
2360 East Bidwell, Suite 105, Folsom	0085.03	Upper
<i>Placer County</i>		
2150 Douglas Boulevard, Suite 100, Roseville	0207.05	Upper
<b>SOLANO AA</b>		
<i>Solano County</i>		
195 North First Street, Dixon	2534.02	Moderate
661 Elmira Road, Vacaville – Regency Park	2529.02	Middle
1455 Oliver Road, Fairfield	2523.05	Upper
555 Mason Street, Vacaville – Downtown Financial Center	2531.01	Middle

Source: FDIC and FNBD website

FNBD had total assets of almost \$681 million as of March 31, 2008. Total assets increased by 7 percent since the last CRA evaluation as of the March 31, 2005, Consolidated Reports of Condition and Income (Call Report) date. The loan portfolio has grown by 12 percent since March 31, 2005. The distribution of its loan portfolio is shown in Table 2.

<b>Loan Type</b>	<b>Dollar Amount (000s)</b>	<b>Percent of Total Loans (%)</b>
Construction and Land Development	91,053	18
Secured by Farmland	14,043	3
1-4 Family Residential	82,823	17
Multi-Family (5 or more) Residential	6,278	1
Commercial	155,029	31
<b>Total Real Estate Loans</b>	<b>349,226</b>	<b>70</b>
Commercial and Industrial	114,862	23
Agricultural	27,041	5
Consumer	4,576	1
Lease Financing Receivables	1,707	Nominal
Other	458	Nominal
<b>Less: Unearned Income</b>	<b>435</b>	<b>Nominal</b>
<b>Total Loans</b>	<b>497,435</b>	<b>100</b>

Source: Call Report March 31, 2008

The table shows that FNBD's primary lending emphasis is commercial (both real estate-secured and non-real estate-secured), followed by residential mortgage lending. Since its inception in 1910, the bank's operating policy has also emphasized serving the banking needs of small- to medium-sized farms.

No financial constraints or legal issues were noted which would impede or prohibit the bank's abilities to meet the credit needs of its communities.

## DESCRIPTION OF AAs

FNBD has delineated two AAs as follows:

- The Sacramento-Arden Arcade-Roseville MSA #40900 (Sacramento AA), consisting of all 367 CTs included in the Counties of Sacramento, Yolo, and Placer.
- The Vallejo-Fairfield MSA #46700 (Solano AA), consisting of 44 of the 80 CTs in Solano County.

FNBD's AAs have not changed since the last evaluation, conform to the requirements of the CRA regulation, and do not arbitrarily exclude low- or moderate-income (LMI) geographies or individuals. The AAs include 28 low-, 106 moderate-, 163 middle-, and 113 upper-income CTs. In addition, the AAs include one CT with no reported income. The LMI CTs are primarily in the Sacramento AA, around the downtown area of Sacramento.

The bank operates in a highly competitive environment. According to the June 30, 2007, Summary of Deposits, FNBD competed with 53 other FDIC-insured banking or savings institutions operating 452 branches within Sacramento, Placer, Yolo, and Solano Counties. FNBD's deposit market share was 2.06 percent, representing a 11th place ranking. FNBD competes with national, regional, and other community banks, thrifts, credit unions, finance companies, mortgage companies, and other financial service providers for deposit and loan customers throughout its AAs.

According to 2006 CRA Peer Small Business Data, FNBD is competing with 131 other lenders in its AAs; FNBD was ranked 5th, with 4.59 percent market share. The 2006 HMDA Peer Mortgage Data shows that FNBD was ranked 182<sup>nd</sup> out of 858 lenders in its AAs, with a .06 percent market share. Finally, FNBD was ranked the highest among 29 small farm lenders, with a 32.84 percent market share.

Economic and demographic information is presented under the descriptions of each individual AA.



## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### LENDING TEST

Presented below are conclusions related to the combined AAs. Following this review is a full-scope analysis of the geographic distribution and borrower's profile for the Sacramento AA. A limited scope review is presented for the Solano AA.

#### LTD Ratio

Given the institution's size, financial condition, and AA credit needs, the bank's LTD ratio is reasonable. A high LTD ratio is a proxy for active lending. The bank's average net LTD ratio for the last 12 calendar quarters was 81 percent. The bank's quarterly ratios have varied from 79 percent on September 30, 2005, to 85 percent on September 30, 2006.

The bank's ratios were compared to two banks. These institutions had a similar asset size, AA, and focus to that of FNBD. The first had total assets of \$833 million as of March 31, 2008. This bank's average LTD ratio for the most recent 12 calendar quarters was 73 percent. The second compared bank had total assets of \$586 million as of March 31, 2008. This bank's average LTD ratio for the 12 quarters is 78 percent.

FNBD shows a slightly higher LTD ratio than the compared banks. Given these comparisons and other considerations, FNBD's LTD ratio is considered reasonable.

#### AA Concentration

The bank originates a substantial majority of its loans within its combined AA. Table 3 shows that 91 percent, by number, and 92 percent, by dollar volume, of total loans were made inside the AA. By product, the bank's performance is strongest with regard to small business lending, where 95 percent of loans, by number, were originated inside the AA.

Loan Category or Type	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Small Business										
2006	482	93	34	7	516	106,718	91	10,064	9	116,782
2007	584	96	26	4	610	146,967	97	4,942	3	151,909
<b>Subtotal</b>	<b>1,066</b>	<b>95</b>	<b>60</b>	<b>5</b>	<b>1,126</b>	<b>253,685</b>	<b>94</b>	<b>15,066</b>	<b>6</b>	<b>268,691</b>
Small Farm										
2006	123	87	19	13	142	16,701	79	4,387	21	21,088
2007	126	89	16	11	142	21,041	86	3,562	14	24,603
<b>Subtotal</b>	<b>249</b>	<b>88</b>	<b>35</b>	<b>12</b>	<b>284</b>	<b>37,742</b>	<b>83</b>	<b>7,949</b>	<b>17</b>	<b>45,691</b>
Home Mortgage										
2006	158	89	20	11	178	42,820	85	7,449	15	50,269
2007	130	82	28	18	158	35,627	79	9,238	21	44,865
<b>Subtotal</b>	<b>288</b>	<b>86</b>	<b>48</b>	<b>14</b>	<b>336</b>	<b>78,447</b>	<b>79</b>	<b>16,687</b>	<b>21</b>	<b>95,134</b>
<b>Total</b>	<b>1,603</b>	<b>92</b>	<b>143</b>	<b>8</b>	<b>1,746</b>	<b>369,874</b>	<b>90</b>	<b>39,642</b>	<b>10</b>	<b>409,516</b>

Source: CRA Data (2006,2007) and HMDA Loan Application Register (LAR) (2006, 2007)

### Geographic Distribution

The overall geographic distribution reflects reasonable dispersion throughout the AAs. Tables 4 through 6 show the distribution of small business loans, small farm, and home mortgage loans by income category of CT.

Table 4 (the distribution of small business loans by income category of CTs) shows the strongest dispersion and is considered excellent. The bank's penetration to LMI CTs greatly exceeded demographic and aggregate data for both 2006 and 2007. Lending in moderate-income CTs is also strong, as the bank's performance exceeded aggregate data and approximated demographics for both years. While the bank made small business loans in low-income CTs throughout the AAs, there is a concentration of small business lending in low-income CT #0102.03, in Yolo County. In 2006, the bank made 52 of the 65 low-income CT loans in this CT, where one of the bank's branches is located.

Table 4 – Distribution of Small Business Loans by Income Category of the CT

CT Income Level	D&B Data (% of Businesses)	2006 Aggregate Data (% of #)	2006		2007	
			#	%	#	%
Low	7	5	65	13	72	13
Moderate	24	19	115	24	131	22
Middle	38	36	174	36	217	37
Upper	31	37	128	27	164	28
N/A	Nominal	3	0	0	0	0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>482</b>	<b>100</b>	<b>584</b>	<b>100</b>

Source: 2007 D&B Data, 2006 CRA Aggregate Data, CRA Data (2006, 2007)

The bank's dispersion of small farm and home mortgage loans is not as strong, but is considered reasonable. When compared to demographic and aggregate data, the bank's overall small farm lending (as shown on Table 5) is weak in low-income CTs and comparable in moderate-income CTs. The bank did not extend any small farm loans in low-income CTs in 2006, and only extended a single loan in 2007. While a small percent of farms are located in low-income CTs, the bank's performance also lags aggregate lending data. Lending in moderate-income CTs is stronger, and while it still lags demographic data, it approximates aggregate lending data. Therefore, while the bank's penetration to low-income CTs is weak, the overall distribution of small farm loans is considered reasonable.

The bank's dispersion of home mortgage loans is similar to that of small farm loans. As shown in Table 6, penetration in low-income CTs is slightly stronger than small farm lending, but still lags demographic and aggregate lending data. Penetration in moderate-income CTs approximates both demographic and aggregate lending data. Overall, the distribution of home mortgage loans is considered reasonable.

**Table 5 – Distribution of Small Farm Loans by Income Category of the CT**

CT Income Level	D&B Data (% of Farms)	2006 Aggregate Data (% of #)	2006		2007	
			#	%	#	%
Low	4	3	0	0	1	1
Moderate	19	14	16	13	20	16
Middle	47	44	85	69	88	70
Upper	30	34	22	18	17	13
N/A	0	5	0	0	0	0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>123</b>	<b>100</b>	<b>126</b>	<b>100</b>

Source: 2007 D&B Data, 2006 CRA Aggregate Data, CRA Data (2006, 2007)

**Table 6 – Distribution of Home Mortgage Loans by Income Category of the CT**

CT Income Level	% of Owner-Occupied Housing Units	2006 Aggregate Data (% of #)	2006		2007	
			#	%	#	%
Low	3	4	3	2	1	1
Moderate	19	19	25	16	25	19
Middle	43	40	68	43	60	46
Upper	35	37	62	39	44	34
N/A	0	Nominal	0	0	0	0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>158</b>	<b>100</b>	<b>130</b>	<b>100</b>

Source: 2000 U.S. Census, 2006 HMDA Aggregate Data, HMDA Data (2006, 2007)

### Borrower's Profile

The distribution of borrowers reflects reasonable penetration among businesses and farms of different sizes, and individuals of different income levels. As mentioned previously, samples of small business and farm loans originated in 2006 and 2007 were selected in order to obtain actual GAR data. This data was used to analyze the bank's performance in lending to businesses and

farms of different sizes. Aggregate CRA data is not stratified in this manner, therefore, this data is only presented for the combined GARs of \$1 million or less.

Table 7 shows the overall distribution of small business loans by GAR. The data shows a decreasing trend. In 2006, a majority (56 percent) of small business loans were originated to small businesses (defined as businesses with GARs of \$1 million or less). In 2007, less than a majority (46 percent) were originated to small businesses. These percentages are significantly below the percent of businesses in the combined AA. However, D&B data includes all businesses in a given area that voluntarily respond to a survey request, including a large number of very small businesses that have limited or no credit needs. The business survey data regularly indicates that the vast majority of businesses in a given area are smaller businesses. The D&B data is only used as an indicator of business demographics in the AA and is not considered an absolute distribution. In addition, the bank's lending to small businesses in 2006 greatly exceeded aggregate data.

While not particularly strong, the bank has demonstrated that it is lending to very small businesses with GARs of less than \$100,000. Overall, the bank has demonstrated that it is lending to businesses of all sizes.

**Table 7 – Distribution Small Business Loans by GAR**

GARs (000s)	D&B Data (% of Businesses)	2006 Aggregate Data (% of #)	2006		2007	
			#	%	#	%
\$0 < \$100	44		4	10	3	7
\$100 < \$250	31		9	23	6	15
\$250 < \$500	12		4	10	5	12
\$500 ≤ \$1,000	6		5	13	5	12
<i>Subtotal</i> \$0 ≤ \$1,000	<i>93</i>	<i>41</i>	<i>22</i>	<i>56</i>	<i>19</i>	<i>46</i>
> \$1,000	7	59	17	44	22	54
<b>Total</b>	<b>100*</b>	<b>100</b>	<b>39</b>	<b>100</b>	<b>41</b>	<b>100</b>

Source: 2007 D&B Data, 2006 CRA Aggregate Data, CRA Data (2006, 2007)

\*Excludes businesses that did not report revenues

Table 8 shows the overall distribution of small farm loans by GAR. As with the small business loan distribution, the bank's lending to small farms (defined as those with GARs of less than \$1 million) lags demographic data. However, as mentioned previously, D&B data is not considered an absolute distribution. The distribution shows reasonable penetration for both years, as the

bank originated a substantial majority of its loans to small farms. This penetration greatly exceeds aggregate lending performance. The bank has also demonstrated that it is lending very small farms. In 2006, nearly one-third of the sampled loans were originated to farms with GARs of less than \$100,000. A decreasing trend in lending to farms with GARs of less than \$100,000 was evident; however, the bank has demonstrated that it is lending to farms of all sizes.

Table 8 – Distribution Small Farm Loans by GAR

GARs (000s)	D&B Data (% of Farms)	2006 Aggregate Data (% of #)	2006		2007	
			#	%	#	%
\$0 < \$100	52		9	29	6	19
\$100 < \$250	28		4	13	4	13
\$250 < \$500	8		11	36	8	26
\$500 ≤ \$1,000	6		2	6	8	26
<i>Subtotal</i> \$0 ≤ \$1,000	<i>94</i>	<i>67</i>	<i>26</i>	<i>84</i>	<i>26</i>	<i>84</i>
> \$1,000	6	33	5	16	5	16
<b>Total</b>	<b>100*</b>	<b>100</b>	<b>31</b>	<b>100</b>	<b>31</b>	<b>100</b>

Source: 2007 D&B Data, 2006 CRA Aggregate Data, CRA Data (2006, 2007)

\*Excludes farms that did not report revenues

Table 9 shows the overall home mortgage distribution for 2006 and 2007, which is considered reasonable. The bank's performance significantly lagged demographic data; particularly with respect to lending to low-income borrowers. However, approximately 40 percent of the low-income AA families are below the poverty level. In addition, the bank's performance exceeds aggregate lending performance. Lending to moderate-income borrowers also lags demographics, but is considered reasonable when compared to aggregate lending data. Overall, the bank has demonstrated that it is lending to borrowers of all income levels.

**Table 9 – Distribution of Home Mortgage Loans by Borrower Income**

Borrower Income Level	% of Total Families	2006 Aggregate Data (% of #)	2006		2007	
			#	%	#	%
Low	21	2	7	5	3	3
Moderate	19	8	14	10	9	8
Middle	21	23	32	22	25	21
Upper	39	67	91	63	81	68
<b>Total</b>	<b>100</b>	<b>100*</b>	<b>144*</b>	<b>100</b>	<b>118*</b>	<b>100</b>

Source: 2000 U.S. Census, 2006 HMDA Aggregate Data, HMDA Data (2006, 2007)

\*Excludes loans where no borrower income was reported

### Response to Complaints

The bank has not received any CRA-related complaints since the last evaluation.

### Fair Lending or Other Illegal Practices Review

No evidence of discriminatory practices or other illegal credit practices, inconsistent with helping to meet community credit needs, was identified during this evaluation.

## COMMUNITY DEVELOPMENT TEST

The growth, diversity, and level of CDLs demonstrates an excellent responsiveness to community development needs. The bank’s community development investments and services support community development activities and show growth since the last CRA evaluation. The Appendix provides the definition for “community development.”

### Community Development Lending

According to the CRA regulation, a CDL is “a loan that has as its primary purpose community development; has not been reported or collected by the bank or an affiliate for consideration in the bank’s assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan; and benefits the bank’s AA(s) or a broader statewide or regional area that includes the bank’s AA(s).”

The bank made 43 CDLs totaling over \$45 million during the review period, compared with 13 CDLs totaling \$23 million during the prior review period. The bank more than tripled its CDLs by number, and nearly doubled its CDLs by dollar volume. Yearly CDL totals are approximately \$6, \$17, \$16, and \$6 million, for 2005 (partial), 2006, 2007, and 2008 (partial), respectively. Nine percent of the bank's total loans are CDLs. The bank's CDL activity significantly exceeded that of two similarly situated institutions.

Community development lending includes loans which contribute to the economic revitalization or stabilization of LMI geographies throughout the bank's AAs. The bank continues to be responsive to the community development needs of communities within its AAs. These AAs are diverse and offer a broad array of community development opportunities. Table 10 shows CDLs made since the last CRA evaluation.

Community Development Activity	Sacramento AA	Sacramento AA	Solano AA	Solano AA	Total by Number	Total by Dollar Volume (000s)
	#	\$	#	\$	#	\$
Affordable Housing	13	21,666	2	1,040	15	22,706
Community Services	22	6,666	-	-	22	6,666
Economic Development	1	500	4	12,675	5	13,175
Revitalize/Stabilize	1	2,905	-	-	1	2,905
<b>Totals</b>	<b>37</b>	<b>31,737</b>	<b>6</b>	<b>13,715</b>	<b>43</b>	<b>45,452</b>

Source: Bank Records

A few of the more notable CDLs include the following:

- Three loans totaling \$7.5 million as a 50 percent participation for development of a portion of an affordable housing project in the LMI Del Paso Height community of Sacramento. The Sacramento Redevelopment and Housing Agency is the lead agency on the redevelopment plan. This portion of the project is for the development of 95 homes, of which 48 are to be affordable for low-income families.
- Two loans totaling \$2.7 million to the Yolo County Housing Authority (YCHA), to finance their new headquarters and fund improvements and equipment within the new building. The mission of the YCHA is to provide quality affordable housing for LMI individuals.
- Three revolving lines of credit totaling \$2.7 million to Communicare Health Centers. Communicare provides healthcare to predominantly low-income and uninsured individuals. One line of credit, totaling \$1.5 million, was opened to finance rehabilitation and expansion of a clinic in West Sacramento.



In addition to the loans shown in Table 10, the bank also renewed a Standby Letter of Credit that supports a \$33 million economic development construction project involving mixed-use properties located within a low-income CT in downtown Sacramento.

The bank also makes use of flexible lending practices. For example, FNBD is an SBA Preferred Lender and operates an SBA Loan Department at the downtown Sacramento Office. Since the last evaluation in April 2005, the bank has funded 45 SBA loans with an aggregate balance of \$41 million. The SBA loans were disbursed throughout the bank's AA with 41 in the Sacramento AA and 4 in the Solano AA.

Another example of flexible lending practices is the Agri-Access Rural Loan Program in which FNBD participates. This program enables homebuyers, intending to establish any type of small agribusiness production on their home site, to purchase rural homes on small acreages or rural acreage for future home construction. FNBD entered this program in January 2005, and makes these loans in coordination with the AgriAccess Division of AgBank, which is part of the Farm Credit System. Since the last evaluation, FNBD has funded 27 loans with an aggregate balance of \$14 million.

### **Community Development Investments**

According to the CRA regulation, a qualified investment is "a lawful investment, deposit, membership share, or grant that has as its primary purpose community development." The bank maintains a significant level of community development investments (including donations), with new investments and donations totaling approximately \$4 million. Yearly investment totals are \$600 thousand in 2006 and \$3 million in 2007. While Table 11 shows FNBD had total investments of \$9 million, it should be noted that \$5 million are outstanding from the last performance evaluation. The level of new investments is comparable to a similarly situated institution, however, total investments significantly exceed similarly situated institutions. Approximately \$6 million, or 67 percent benefit the Sacramento AA, with the remaining portion benefiting the Solano AA.

Community development investments represent approximately 1 percent of total assets and 3 percent of total investments. At the last review, total qualified investments were 0.4 percent of total assets. Community development investments were generally not considered innovative or complex.

Community development investments made since the last evaluation include 4 school bonds totaling \$3 million. For the school districts covered by the school bonds, at least 50 percent of the student populations are on school lunch programs, which is used as a proxy for LMI families. The bank also pledged to invest \$1 million for rehabilitation of 2 properties located in Sacramento. The 2 properties constitute 54 units of a multi-family living facility. The properties are both more than 30 years old and will undergo substantial rehabilitation commencing in November 2008. The rehabilitation will prolong the life of the properties and preserve much needed affordable housing in the Sacramento area. All of the units will be occupied by families

earning 30 to 50 percent of the area median income.

In addition to the CRA qualified investments noted in the table, the bank has pledged approximately \$4 million in securities to secure public deposits for 7 non-profit organizations. These include school districts and government sponsored organizations that support programs and services for LMI individuals located in the bank's AAs.

The bank also made qualifying donations totaling \$296 thousand during the review period. Yearly donation totals are \$63, \$92, \$117, and \$24 thousand in 2005 (partial), 2006, 2007, and 2008 (partial), respectively. Community development donations were provided to diverse groups, including those who build low-income housing, provide education for LMI individuals, and provide health and other social services to LMI individuals.

<b>Table 11 - Qualified Investments</b>		
<b>Investment Description</b>	<b>Number</b>	<b>Dollars (000s)</b>
Low-Income Housing Tax Credits	1	2,355*
Affordable Housing Rehabilitation and Construction	1	1,000
State and Municipal Obligations	4	2,525
	3	2,030*
Not-for-Profit Organizations serving LMI housing or other community development needs	2	840*
Organizations supporting activities essential to the capacity of LMI individuals and geographies to utilize credit or to sustain economic development	0	0
<b>Total Debt or Equity Investments</b>	<b>11</b>	<b>8,750</b>
In-Kind Contributions of Property		53
Other Qualified Grants and Donations		243
<b>Total Qualified Grants and Donations</b>		<b>296</b>
<b>Grand Total</b>		<b>9,046</b>

Source: Bank Records

\*These investments were made during the prior evaluation.

## Community Development Services

Qualified activities are defined as “a service that has as its primary purpose community development, is related to the provision of financial services, and has not been considered in the evaluation of the bank’s retail banking service.”

From September 2006 to May 2008, 22 bank officers and employees donated a total of 1,373 community development service hours. Prior to September 2006, the bank did not formally track qualified services of employees. A large portion of the bank’s community development service hours related to fundraising activities benefiting LMI individuals and projects within the bank’s AAs. The bank’s community development service activity is comparable to two similarly situated institutions.

Yearly community development service hour totals were 376, 881, and 116, in 2006 (partial), 2007, and 2008 (partial), respectively. A total of 972 hours, or 71 percent, benefited the Sacramento AA, with the balance benefiting the Solano AA.

A single employee provided 209 of the community development service hours in 2006, who served on several boards in the Sacramento area and provided financial expertise for activities related to affordable housing, LMI services, revitalization projects, and small business development loans. Five employees contributed 824 of the total community development service hours in 2006 and 2007. These employees provided their financial expertise and technical assistance as board members for qualified community service activities in several cities throughout the bank’s AAs.

In addition to the community development service hours described above, the bank logged 76 hours processing 2 affordable housing program grants awarded by the Federal Home Loan Bank of San Francisco in 2006 and 2007. These grants benefited two low-income housing projects.

Since the last evaluation in April 2005, the bank established an employee recognition program for service hours called The Franklins Program. This program has helped to increase the level of community development services provided by bank employees.

Table 12 –Community Development Services

Description	Technical Assistance or Direct Involvement by Bank Employee		Bank Product or Service	
	Sacramento AA	Solano AA	Sacramento AA	Solano AA
Educational training for low-moderate income people	X	X	X	
Adoptions, Shelters, and programs for the low-moderate income individuals	X	X	X	X
Small business and job opportunities for the development and growth of the community	X	X	X	X
Development of affordable housing	X	X	X	X
Revitalization projects for the AA	X	X	X	X
Fundraising for education training, shelters, social programs, affordable housing, revitalization projects, and small business and job development benefiting low and moderate income population.	X	X		

Source: Bank Records

FNBD also continues to provide several bank products and services targeted to low- income individuals and projects, and small businesses as follows:

- Check cashing services since 1997, for low-income individuals placed under the care of the Yolo County Public Guardian.
- Electronic Transfer Account program since 1999, to provide low-income individuals with a low-cost way to receive federal payment benefits through direct deposit.
- Electronic Benefit Transfer program since 2002, which distributes food stamp benefits with a debit card through ATM machines and point of sale terminals.
- “Get Checking” services program since 2003, in partnership with Consumer Credit Counseling Services to help consumers who have a history of poorly managed personal account re-enter the banking mainstream. The program serves primarily LMI individuals.
- “Smart Savers” program since 2001, which involved an in-school savings program for 1<sup>st</sup> and 2<sup>nd</sup> grade classrooms and resulted in the opening of 110 savings accounts with a current balance of over \$8,000. The students involved in this program are all qualified for subsidized lunch programs.

- FNBD promotes community development by providing non-profit organizations (1,157) with free checking accounts if they do not exceed 500 transactions monthly.
- FNBD provides services to the unbanked Hispanic population since 2005, by accepting the Matricula Consular as the primary form of identification for 165 active account holders. Without the acceptance of the Matricular Consular as the primary form of identification, these local Hispanic customers could not open accounts.
- Since November 2006, FNBD has acted as Trustee for the State of California Business, Transportation, and Housing Small Business Loan Guarantee Program that guarantees small business loans, direct farm loans, and disaster assistance loans. The purpose of the guarantee program is to stimulate job creation and retention, by providing small farms and businesses with access to financing for which they would otherwise not qualify. As Trustee, FNBD manages \$45 million in assets for a less than typical fee.
- FNBD has also acted as Trustee since 2006 for the West Sacramento Housing Development Corporation, a non-profit organization which provides affordable housing. FNBD currently manages over \$1 million in trust assets.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA IN THE SACRAMENTO AA – FULL-SCOPE EVALUATION**

### **DESCRIPTION OF THE SACRAMENTO AA**

The Sacramento AA encompasses the majority of FNBD's branch structure, operations, deposit base, and lending activity. A substantial majority of consumers, businesses, and farms are also located in this portion of the combined AA. To illustrate, 85, 89, and 87 percent of businesses, farms, and families are located in the Sacramento AA, respectively. The AA consists of 367 CTs and includes 28 low-, 94 moderate-, 141 middle-, and 104 upper-income CTs.

The 2007 unemployment rate in the 3 counties in the Sacramento AA ranged from a low of 4.8 percent in Placer County, to a high of 5.8 percent in Yolo County. Sacramento County was in the middle, with a 5.4 percent unemployment rate, which approximates the State of California unemployment rate of 5.3 percent.

The mortgage crisis has taken a toll on new home construction and large commercial projects in the Sacramento AA. In addition, home prices have dropped significantly, with median home prices dropping over 29 percent in the Sacramento-Roseville market from the 1<sup>st</sup> quarter of 2007 to the 1<sup>st</sup> quarter of 2008. This price drop was the highest in the U.S. and has negatively affected the local economy.

Federal and state government is the largest sector of the Sacramento AA, followed by educational, health, professional, and business services. The University of California-Davis, is the largest employer with more than 12,000 employees.

#### **Community Contact**

An interview was conducted with a manager of a community group serving the housing needs of lower-income families in Sacramento County. The group primarily serves the neighborhoods of Oak Park and Del Paso Heights, which are two very low-income communities in Sacramento County. The contact stated that affordable housing continues to be a critical need in the AA.

### **LENDING TEST**

Approximately 72 percent of the small business, small farm, and home mortgage loans originated during the review period were located in the Sacramento AA.

## Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the Sacramento AA. The bank's dispersion in the Sacramento AA is consistent with that of the combined AA, with excellent distribution of small business loans, and reasonable distribution of small farm and home mortgage loans.

The distribution of small business loans is excellent, particularly with respect to lending in low-income CTs. As shown in Table 13, the bank's penetration to low-income CTs was more than double the percent of AA businesses and triple the percent of aggregate lending.

**Table 13 – Distribution of Small Business Loans by Income Category of the CT**

CT Income Level	D&B Data (% of Businesses)	2006 Aggregate Data (% of #)	2006		2007	
			#	%	#	%
Low	8	6	65	19	72	17
Moderate	24	20	88	25	106	24
Middle	37	36	95	27	120	28
Upper	31	38	99	29	137	31
Total	100	100	347	100	435	100

*Source: 2007 D&B Data, 2006 CRA Aggregate Data, CRA Data (2006, 2007)*

Similar to the combined AA, small farm and home mortgage lending in the Sacramento AA is not as strong as small business lending. As shown in Table 14, the bank's small farm lending is weak in low-income CTs and strong in moderate-income CTs. While the bank's penetration to low-income CTs lags demographic and aggregate lending data, penetration to moderate-income CTs exceeds aggregate lending data and is comparable to the percent of AA farms.

The dispersion of home mortgage loans in the Sacramento AA mirrors that of the combined AA. As shown in Table 16, penetration to low-income CTs slightly lags demographic and aggregate lending data, but penetration to moderate-income CTs is comparable.

**Table 14 – Distribution of Small Farm Loans by Income Category of the CT**

CT Income Level	D&B Data (% of Farms)	2006 Aggregate Data (% of #)	2006		2007	
			#	%	#	%
Low	5	4	0	0	1	1
Moderate	20	15	16	18	20	22
Middle	45	44	66	74	64	72
Upper	30	37	7	8	4	5
<b>Total</b>	<b>100</b>	<b>100</b>	<b>89</b>	<b>100</b>	<b>89</b>	<b>100</b>

Source: 2007 D&B Data, 2006 CRA Aggregate Data, CRA Data (2006, 2007)

**Table 15 – Distribution of Home Mortgage Loans by Income Category of the CT**

CT Income Level	% of Owner-Occupied Housing Units	2006 Aggregate Data (% of #)	2006		2007	
			#	%	#	%
Low	4	4	3	3	1	1
Moderate	19	19	20	19	18	20
Middle	41	39	42	41	37	41
Upper	36	38	38	37	35	38
<b>Total</b>	<b>100</b>	<b>100</b>	<b>103</b>	<b>100</b>	<b>91</b>	<b>100</b>

Source: 2000 U.S. Census, 2006 HMDA Aggregate Data, HMDA Data (2006, 2007)

### Borrower's Profile

The distribution of borrowers in the Sacramento AA reflects reasonable penetration among businesses and farms of different sizes, and individuals of different income levels.

As with the combined AA, Table 16 shows a decreasing trend of lending to small businesses. In 2006, a majority (56 percent) of loans were originated to small businesses, which greatly



exceeded aggregate lending data. In 2007, this penetration decreased by nearly 20 percentage points, to 39 percent. However, this level of lending still approximates 2006 aggregate lending data. Lending to very small businesses with GARs of less than \$100,000 is not strong, and is weaker than performance for the combined AA. However, the bank had demonstrated that it is lending to businesses of all sizes in the Sacramento AA.

**Table 16 – Distribution Small Business Loans by GAR**

GARs (000s)	D&B Data (% of Businesses)	2006 Aggregate Data (% of #)	2006		2007	
			#	%	#	%
\$0 < \$100	43		1	4	2	6
\$100 < \$250	31		7	26	4	12
\$250 < \$500	12		4	15	4	12
\$500 ≤ \$1,000	6		3	11	3	9
<i>Subtotal</i> \$0 ≤ \$1,000	92	41	15	56	13	39
> \$1,000	8	59	12	44	21	61
<b>Total</b>	<b>100*</b>	<b>100</b>	<b>27</b>	<b>100</b>	<b>34</b>	<b>100</b>

Source: 2007 D&B Data, 2006 CRA Aggregate Data, CRA Data (2006, 2007)

\*Excludes businesses that did not report revenues

Table 17 shows the distribution of small farm loans by GAR for the Sacramento AA, which is considered excellent. Consistent with performance for the combined AA, a substantial majority of the loans sampled were originated to small farms. This penetration greatly exceeds aggregate lending data and only slightly lags the percent of Sacramento AA farms.

Table 18 shows the distribution of home mortgage loans in the Sacramento AA, which is considered reasonable. As with performance in the combined AA, lending to LMI borrowers significantly lags demographic data. However, the level of lending is considered reasonable when compared to aggregate lending data.

Table 17 – Distribution Small Farm Loans by GAR

GARs (000s)	D&B Data (% of Farms)	2006 Aggregate Data (% of #)	2006		2007	
			#	%	#	%
\$0 < \$100	52		5	22	4	17
\$100 < \$250	28		4	17	4	17
\$250 < \$500	8		9	39	6	26
\$500 ≤ \$1,000	6		2	9	7	30
<i>Subtotal</i> \$0 ≤ \$1,000	94	66	20	87	21	90
> \$1,000	6	34	3	13	2	10
<b>Total</b>	<b>100*</b>	<b>100</b>	<b>23</b>	<b>100</b>	<b>23</b>	<b>100</b>

Source: 2007 D&B Data, 2006 CRA Aggregate Data, CRA Data (2006, 2007)

\*Excludes farms that did not report revenues

Table 18 – Distribution of Home Mortgage Loans by Borrower Income

Borrower Income Level	% of Total Families	2006 Aggregate Data (% of #)	2006		2007	
			#	%	#	%
Low	21	2	4	4	1	1
Moderate	18	9	7	8	7	9
Middle	21	23	20	22	16	19
Upper	40	66	61	66	59	71
<b>Total</b>	<b>100</b>	<b>100*</b>	<b>92*</b>	<b>100</b>	<b>83*</b>	<b>100</b>

Source: 2000 U.S. Census, 2006 HMDA Aggregate Data, HMDA Data (2006, 2007)

\*Excludes loans where no borrower income was reported

## **COMMUNITY DEVELOPMENT TEST**

The bank's community development performance in the Sacramento AA is consistent with the overall community development test conclusions.

### **CDLs**

FNBD originated 37 CDLs in the Sacramento AA totaling approximately \$32 million. The qualified CDLs originated by FNBD were primarily targeted to organizations which provided affordable housing and community services to LMI individuals.

### **Community Development Investments**

Five investments totaling \$6 million benefited the Sacramento AA. These investments included two bond issues and two economic development investments that benefited LMI individuals and projects in the Sacramento AA. In addition, one investment was made for a senior apartment complex that benefited from affordable housing tax credits

### **Community Development Services**

The majority of the community development services are related to the Sacramento AA. Twelve employees provided 972 hours of community development services. Organizations that were the focus of community service activities performed by bank employees include a housing development corporation, a teen center for low-income children, and a revolving loan fund focused on economic development in a low-income area.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA IN THE SOLANO AA – LIMITED-SCOPE EVALUATION**

### **DESCRIPTION OF SOLANO AA**

The Solano AA consists of 44 of Solano County's 80 CTs. The AA does not include the communities of Vallejo and Benicia in the southwestern section of Solano County. FNBD does not operate a branch office or otherwise attempt to develop business in the Vallejo or Benicia markets. Both markets are located on the north end of the San Francisco Bay and are heavily banked by Bay Area institutions..

Of the 44 CTs in the AA, 12 are moderate-, 22 are middle-, and 9 are upper-income CTs. In addition, one CT has no reported income. The Solano AA continues to diversify and grow. Reflecting the credit problems in late 2007, home building has slowed considerably. Conversely, the commercial sector continues to expand and diversify. Centrally positioned in Solano County, Travis AFB continues to be the largest employer county-wide, providing nearly 15,000 jobs. Solano County's unemployment rate in 2007 is moderate at 5.2 percent, consistent with the state average of 5.3 percent. Jobs have increased by 10 percent from 2006 to 2007, to a total of 100,000.

### **LENDING TEST**

Approximately 28 percent of the small business, small farm, and home mortgage loans originated during the review period were located in the Solano AA.

The bank's performance in the Solano AA is generally not inconsistent with the overall lending test conclusions. The only exception is with respect to the geographic distribution of small farm loans, which is in need of improvement. The bank did not extend any small farms loans in moderate-income CTs in either 2006 or 2007. According to D&B data, 11 percent of Solano AA farms are located in moderate-income CTs. In addition, 11 percent of CRA aggregate lending was in moderate-income CTs. While the bank's small farm loan dispersion is considered poor, it did not affect the overall conclusion for the Solano AA.

### **COMMUNITY DEVELOPMENT TEST**

The bank's performance in the Solano AA is not inconsistent with the overall community development test conclusions.

## APPENDIX – GLOSSARY

**Aggregate lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/AA.

**CT:** A small subdivision of metropolitan and other densely populated counties. CT boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. CTs usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. CTs are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community development:** All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

**Consumer loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-

relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full-scope review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

**Geography:** A CT delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited-scope review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/AA.

**Metropolitan area (MA):** A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

**Middle-income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

**Moderate-income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

**Small loan(s) to business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

**Small loan(s) to farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Upper-income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

