

# **PUBLIC DISCLOSURE**

**April 11, 2005**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First Northern Bank of Dixon  
Certificate Number: 03440**

**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 evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **First Northern Bank of Dixon** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **April 11, 2005**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. 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 Outstanding.

### LENDING, INVESTMENT, AND SERVICE TEST TABLE

*The following table indicates the performance level of the institution with respect to the Lending, Investment, and Service Tests.*

PERFORMANCE LEVELS	First Northern Bank of Dixon		
	PERFORMANCE TESTS		
	Lending Test	Investment Test	Service Test
Outstanding	X		X
High Satisfactory		X	
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

## **SUMMARY OF FINDINGS**

First Northern Bank of Dixon demonstrated excellent responsiveness and commitment to the credit and service needs, and good responsiveness and commitment to the investment needs, of its assessment areas, based upon the following findings:

### **Lending Test**

First Northern Bank of Dixon's Lending Test rating is "Outstanding".

- Lending levels reflect good responsiveness to assessment area credit needs.
- A substantial majority of loans are made in the institution's assessment areas.
- The bank's distribution of borrowers reflects, given the product lines offered by the institution, excellent penetration among business customers of different size and retail customers of different income levels.
- The bank's geographic distribution of loans reflects excellent penetration throughout the assessment areas.
- The bank is a leader in making community development loans.
- The bank uses flexible lending practices in order to serve assessment area credit needs.
- The bank exhibits an excellent record of serving the credit needs of the most economically disadvantaged areas of its assessment areas, low-income individuals, and/or small businesses, consistent with safe and sound banking practices.

### **Investment Test**

First Northern Bank of Dixon's Investment Test rating is "High Satisfactory".

- The bank transacted a significant level of qualified community development investments, grants, and donations.
- The bank's qualified investments, grants, and donations exhibited good responsiveness to credit and community economic development needs.
- The bank took a leadership position in one complex investment.

### Service Test

First Northern Bank of Dixon's Service Test rating is "Outstanding".

- Delivery systems are accessible to essentially all portions of the bank's assessment areas.
- The bank's record of opening and closing branches has improved the accessibility of its delivery systems, particularly in low- and-moderate-income (LMI) geographies and/or to LMI individuals.
- Services are tailored to the convenience and needs of the assessment areas, particularly LMI geographies and/or LMI individuals; business hours do not vary in a way that inconveniences certain portions of the assessment areas, particularly LMI geographies and/or LMI individuals.
- The bank is a leader in providing community development services.

## DESCRIPTION OF INSTITUTION

First Northern Bank of Dixon (FNBD), established in 1910, is a state-chartered, non-member commercial bank headquartered in Dixon, Solano County, California. FNBD is a wholly-owned subsidiary of First Northern Community Bancorp, a one-bank holding company also headquartered in Dixon, California. FNBD maintains no other affiliate relationships.

FNBD conducts its operations primarily within Solano, Sacramento, Yolo, and Placer Counties of California. The bank operates a network of 11 full-service branches, two limited-service satellite branches, five real estate loan production offices (LPOs), a Small Business Administration (SBA) Loan Department operating within two full-service branches, an Asset Management and Trust Department operating within a full-service branch, an administrative/operations center, and an Investment and Brokerage Services Department operating within two full-service branches. Additionally, FNBD maintains 15 Automated Teller Machines (ATMs). Please refer to the Service Test sections of this evaluation for details concerning the bank's branch operations, products, and services.

Per the December 31, 2004, Consolidated Report of Condition and Income, FNBD reported total assets of \$628,663,000; total loans of \$440,248,000; total securities of \$53,376,000, total deposits of \$557,804,000, and total equity capital of \$51,273,000. There are no regulatory or legal constraints preventing FNBD from meeting the credit needs of its assessment areas. The bank's overall financial condition is sound. Earnings, capital, and liquidity have been sufficient to support the bank's lending activity. As of December 31, 2004, the bank maintained a core capital (leverage) ratio of 7.99 percent, a return-on-assets ratio of 1.15 percent, a return-on-equity ratio of 13.89 percent, and a net interest margin of 5.36 percent.

Since its inception in 1910, the bank's operating policy has emphasized serving the banking needs of individuals and small-to-medium-sized businesses and farms. FNBD's primary lending emphasis is commercial (both real-estate-secured and non-real-estate-secured), followed by consumer residential mortgage lending. FNBD's residential mortgage lending is subject to the reporting requirements of the Home Mortgage Disclosure Act (HMDA). The bank also originates agricultural and non-real estate consumer loans.

## DESCRIPTION OF ASSESSMENT AREA

FNBD's Combined Assessment Area includes all of Yolo, Sacramento, and Placer Counties and all but the southwestern portion (the cities of Vallejo and Benicia) of Solano County.

For purposes of the previous CRA Performance Evaluation dated July 9, 2002, FNBD's assessment area included all of Yolo County and the above-mentioned portion of Solano County. Since then the bank's assessment area has undergone significant changes. In addition to demographic changes subsequent to the 2000 census and the census tract and Metropolitan Area changes made by the U.S. Office of Management and Budget (OMB) during 2003 and 2004, the bank added to its Combined Assessment Area all of Sacramento County during the third quarter of 2002 and all of Placer County during the third quarter of 2004. The bank's Combined Assessment Area has grown from 72 census tracts in 2002 to the current total of 411 census tracts, an increase of 471 percent.

The bank's Combined Assessment Area constitutes a single, intra-state, contiguous area. Sacramento, Yolo, and Placer Counties (together with El Dorado County) constitute the Sacramento-Arden-Arcade-Roseville MSA 40900. Solano County individually constitutes the Vallejo-Fairfield MSA 46700.

FNBD's assessment area conforms to the requirements of the CRA regulation and does not arbitrarily exclude any LMI geographies or individuals.

For purposes of this evaluation, the bank's "Combined Assessment Area" (CAA) consists of the following two individual assessment areas:

- The Sacramento MSA 40900 Assessment Area (Sacramento AA), consisting of all 367 census tracts that constitute Sacramento, Yolo, and Placer Counties; and
- The Solano MSA 46700 Assessment Area (Solano AA), consisting of 44 of the county's 80 census tracts.

### Combined Assessment Area

#### Demographic Profile

Separate analyses of the Sacramento AA and the Solano AA are presented later in this evaluation as part of each assessment area's evaluation.

#### Competition and Market Share Profile

FNBD maintained a competitive market share versus other banks within its CAA. As of June 30, 2004, FNBD's deposit market share within the Sacramento AA was 1.4 percent, ranking 12th out of 42 FDIC-insured financial institutions that maintain offices within the AA. FNBD's market share within Solano County was 6.7 percent, ranking 7th out of 14 FDIC-insured financial institutions that maintain offices within the county. Within the CAA, four large nation-wide banks, and two large regional banks, each with total assets in excess of \$1 billion, account for 71.4 percent of total deposit market share. Table 1 details the bank's market share profile.

**Table 1**

<b>Deposit Market Share as of June 30, 2004</b>			
<b>Number of Branches and LPOs</b>	<b>Market Share within County / AA (%)</b>	<b>Rank within County / AA</b>	<b>Banks within County / AA</b>
<b>Yolo County</b> (Four full-service branches, two limited-service branches, two LPOs)	15.0	3rd	12
<b>Sacramento County</b> (One full-service branch)	0.1	32nd	35
<b>Placer County</b> (One full-service branch, one LPO)	0.1	27th	27
<b>Sacramento MSA AA</b> (six full-service branches, two limited-service branches, three LPOs)	1.4	12th	42
<b>Solano County</b> (five full-service branches, one LPO)	6.7	7th	14
<b>Sacramento MSA AA &amp; Solano County</b> (11 full-service branches, two limited-service branches, four LPOs)*	2.0	12th	45

Source: FDIC Summary of Deposits

\* The bank's fifth LPO is located in El Dorado County, outside the bank's delineated AA

In addition to FDIC-insured banks, FNBD must compete with numerous credit unions, finance companies, and mortgage companies.

## SCOPE OF EVALUATION

FNBD was evaluated using "Large Bank" procedures. The CRA defines a large bank as one that had total assets of greater than or equal to \$250 million as of December 31 of the prior two calendar-years. This evaluation reflects the bank's CRA performance since the previous evaluation dated July 9, 2002, which resulted in an overall CRA rating of "Satisfactory".

The current evaluation was conducted at the institution's administrative/operations center in Dixon. The evaluation relied upon records and reports provided by the bank, publicly available loan and financial information, demographic and metropolitan area information from the 2000 U.S. Census and 2004 OMB data, and information gathered as part of the examination process, including community contacts.

There is no similarly situated bank, either in terms of asset size; lending, deposit, and operations profile; or AA delineation that is headquartered or operating within FNBD's CAA.

A review of FDIC records, as well as the bank's CRA Public File, did not reveal any CRA-related complaints since the previous evaluation.

CRA-reportable small business loans were evaluated as this loan product represents FNBD's principal lending focus. HMDA-reportable residential mortgage loans were also reviewed as they represent the bank's second-most predominant loan type. During 2004, FNBD originated within the CAA 142 small farm loans totaling \$17,657,000. These small farm loans were evaluated; however, they do not appear in this evaluation as they do not represent either the predominant or

secondary loan products offered by the bank. Their impact did not yield different conclusions or materially add to the analyses. Only loans originated are evaluated; no small business or HMDA loans were purchased during the evaluation period. HMDA-reportable loans are grouped together as one loan category since stratification by loan type (purchase, refinance, home improvement, multi-family), although evaluated, did not yield different conclusions or significantly add to the analyses. Dollar totals for the borrower profile and geographic distribution analyses are not presented in this evaluation as these totals, although evaluated, did not yield different conclusions or significantly add to the analyses.

The institution's 2003 CRA data (small business and small farm loans) was corrupted and could not be reconstructed by the bank in a machine readable format. Consequently, year-2003 lending data is not presented within this performance evaluation. Still, examiners obtained the bank's calendar-year 2003 CRA Disclosure Statement from FDIC records and evaluated these loans along with the bank's 2003 HMDA data. Examiners also reviewed the bank's self-assessment of its year-2003 small business, small farm, and HMDA loans. The bank's performance as to this year-2003 lending data was comparable to, and supported examiner findings and conclusions for, year-2004 performance. The bank's lending performance for 2004 was compared to aggregate lending data for 2003, the most current period available.

Full-scope examination procedures were used to determine the bank's overall performance within the Sacramento AA while limited-scope procedures were used to evaluate performance within the Solano AA. Performance within the Sacramento AA is weighted more heavily than performance within the Solano AA due to the Sacramento AA's higher concentration of loans, branches, operations, and deposits.

Considering FNBD's commercial and consumer residential mortgage lending focus, its mission to serve the banking needs of individuals and small-to-medium-sized businesses, and the absence of low-income census tracts within Placer and Solano Counties, the CRA small business and HMDA loan analyses place greater weight upon the borrower profile criterion versus the geographic distribution criterion. Considering the greater number and dollar volume of small business loans originated by the bank, greater weight was placed upon small business lending performance versus HMDA lending performance.

#### Community Contact

This evaluation utilized a recently conducted community contact with a non-profit economic development corporation (EDC) headquartered in Sacramento. This EDC's service area includes the counties of El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba. The EDC's primary activities involve channeling institutional capital into commercial and residential real estate investment projects in economically underserved LMI geographies. The contact identified affordable housing financing as a primary credit need, followed by small business and small farm lending. The contact identified FNBD as being very active in community development.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS COMBINED ASSESSMENT AREA**

### **LENDING TEST**

The Lending Test evaluates a bank's record of helping to meet the credit needs of its AAs through its small business, small farm, home mortgage, and community development lending. The FDIC evaluates a bank's lending performance based upon the following seven criteria:

- 1) Lending activity;
- 2) Assessment area concentration;
- 3) Borrower profile;
- 4) Geographic distribution;
- 5) Community development lending;
- 6) Innovative and/or flexible lending practices; and
- 7) Record of serving the credit needs of the most economically disadvantaged.

FNBD is rated "Outstanding" for the Lending Test.

The bank's overall lending performance reflects excellent commitment and responsiveness to the credit needs of its delineated AAs. Performance as to AA concentration, borrower profile, geographic distribution, community development lending, and serving the needs of the most economically disadvantaged was excellent, while the bank's overall level of lending and use of innovative and/or flexible lending practices were good.

### **Lending Activity**

FNBD's overall lending levels within its CAA reflect good responsiveness to AA credit needs. The bank experienced annual total loan growth of 6.8 percent during 2003 and 13.8 percent during 2004, which added \$77,945,000 in additional total loans over this period. The largest increases over this two-year period were in construction lending (57.6 percent) and commercial/commercial real estate lending (40.6 percent). However, residential mortgage lending declined 15.1 percent during this same period as a result of the declining market demand for home mortgage refinancings during 2004.

FNBD sells a significant volume of its residential mortgage loans in the secondary market, allowing the bank to optimize its deposit base and credit reinvestment. During calendar-year 2003, FNBD sold 751 residential mortgage loans totaling \$168,936,208; during 2004, the bank sold 195 mortgage loans totaling \$49,280,248.

The overall growth in lending, combined with a 25.8 percent total deposit increase from year-end 2002 to year-end 2004, resulted in annual average loan-to-deposit ratios of 77.9 percent and 77.3 percent for 2003 and 2004, respectfully.

### Assessment Area Concentration

FNBD's lending concentration reflects an excellent level of responsiveness to the credit needs of its CAA. FNBD originated a substantial majority of its small business and HMDA loans within its AAs. Specifically, during calendar-year 2004, FNBD originated 90.2 percent by count, and 89.6 percent by dollar volume, of its small business and HMDA loans inside its CAA. Lending patterns were consistent as the concentration of small business loans was comparable to that of HMDA loans.

### Borrower Profile

FNBD exhibited excellent borrower profile performance. For both small business lending and HMDA lending, greater weight was placed upon comparisons to aggregate lending rather than demographic profile as the aggregate data more effectively reflects the effects of market share and competition within the overall analysis.

#### Small Business Loans

FNBD's performance reflects an excellent level of penetration among businesses of different gross annual revenue (GAR) levels. Table 2 details the bank's borrower profile performance as to small business loans.

*Table 2*

<b>Distribution of Small Business Loans by Business Revenue – Combined Assessment Area</b>						
<b>Borrower Revenue Level</b>	<b>CAA Businesses*</b>		<b>2003 Aggregate Lending Data**</b>		<b>FNBD 2004 Small Business Loans</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>GAR ≤ \$1Million</b>	73,290	64.2	20,068	38.0	233	45.0
<b>GAR &gt; \$1Million</b>	40,918	35.8	32,805	62.0	285	55.0
<b>Total</b>	114,208	100.0	52,873	100.0	518	100.0

\* 2004 Dun & Bradstreet data

\*\* Aggregate CRA data for all financial institutions that originated small business loans within FNBD's CAA during calendar-year 2003; GAR > \$1million includes businesses that did not report revenue

The bank originated 45.0 percent of its year-2004 small business loans to small business with GARs of less than or equal to \$1million. Although the bank's percentage is below the level of small businesses within the CAA, it noticeably exceeds the 38.0 percent aggregate level achieved by competitor banks.

#### HMDA Loans

FNBD's performance reflects a good level of penetration among individuals of different gross annual income (GAI) levels. Table 3 details the bank's borrower profile performance as to HMDA loans.

**Table 3**

<b>Distribution of HMDA Loans by Borrower Income – Combined Assessment Area</b>				
<b>Borrower Income Level*</b>	<b>CAA Households</b>	<b>2003 Aggregate Lending Data**</b>	<b>FNBD 2004 HMDA Loans</b>	
	<b>%</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	22.5	3.3	9	5.2
<b>Moderate</b>	17.0	13.8	20	11.6
<b>Middle</b>	19.6	26.8	38	22.0
<b>Upper</b>	40.9	49.5	104	60.1
<b>Income Not Reported</b>	0.0	6.6	2	1.1
<b>Total</b>	100.0	100.0	173	100.0

\* Borrower income stratification based upon HUD estimated median family income

\*\* Aggregate HMDA data for all financial institutions that originated HMDA loans within FNBD's CAA during calendar-year 2003

FNBD lent among all income levels of borrower. Among low-income borrowers, the bank's percentage of 5.2 percent exceeded the 3.3 percent aggregate level but was below the percentage of AA households. Among moderate-income borrowers, the bank's percentage rose to 11.6 percent, only slightly below aggregate lending of 13.8 percent but again below the percentage of households, although to a lesser degree than among low-income borrowers. Among LMI tracts combined, the bank's percentage of 16.8 was comparable to the aggregate percentage of 17.1 and below the AA household percentage of 39.5. Distribution among middle- and upper-income borrowers was mixed: lending among middle-income borrowers was below aggregate but above the percentage of households while lending among upper-income borrowers was above both aggregate and household levels.

### **Geographic Distribution**

FNBD exhibited excellent geographic distribution performance. For both small business lending and HMDA lending, greater weight was placed upon comparisons to aggregate lending rather than demographic profile as the aggregate data more effectively reflects the effects of market share and competition within the overall analysis.

### **Small Business Loans**

FNBD's performance reflects an excellent distribution of small business loans by income category of census tract. Table 4 illustrates the bank's geographic distribution within the CAA.

**Table 4**

<b>Geographic Distribution of Small Business Loans by Census Tract Income Category – Combined Assessment Area</b>				
<b>Census Tract Income Category</b>	<b>CAA Businesses*</b>	<b>2003 Aggregate Lending Data**</b>	<b>FNBD 2004 Small Business Loans</b>	
	<b>%</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	7.8	6.4	73	14.1
<b>Moderate</b>	25.1	21.7	147	28.4
<b>Middle</b>	39.3	39.6	179	34.5
<b>Upper</b>	27.8	32.3	119	23.0
<b>Income Not Reported</b>	0.0	0.0	0	0.0
<b>Total</b>	100.0	100.0	518	100.0

\* 2004 Dun & Bradstreet data

\*\* Aggregate CRA data for all financial institutions that originated small business loans within FNBD's CAA during calendar-year 2003

The bank's overall small business loan distribution is well balanced as the bank lent among all income categories of census tract. The bank's distributions among both low- and moderate-income census tracts significantly exceed both the aggregate levels and the percentages of businesses within each census tract income category. The bank's percentage of 14.1 among low-income tracts is particularly noteworthy.

#### HMDA Loans

FNBD's performance reflects a good distribution of HMDA loans by income category of census tract. Table 5 illustrates the bank's geographic distribution within the CAA.

**Table 5**

<b>Geographic Distribution of HMDA Loans by Census Tract Income Category – Combined Assessment Area</b>				
<b>Census Tract Income Category</b>	<b>CAA Owner-Occupied Housing Units</b>	<b>2003 Aggregate Lending Data*</b>	<b>FNBD 2004 HMDA Loans</b>	
	<b>%</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	3.2	3.0	1	0.6
<b>Moderate</b>	18.9	15.5	33	19.1
<b>Middle</b>	42.5	40.0	73	42.2
<b>Upper</b>	35.4	41.5	66	38.1
<b>Income Not Reported</b>	0.0	0.0	0	0.0
<b>Total</b>	100.0	100.0	173	100.0

\* Aggregate HMDA data for all financial institutions that originated HMDA loans within FNBD's CAA during calendar-year 2003

The bank's overall distribution appears reasonable and the bank lent among all income categories of census tract. The bank's dispersion among low-income tracts was less than that for aggregate lenders and below the percentage of AA housing units. However, performance among moderate-income tracts was stronger at 19.1 percent, above both aggregate and housing unit percentages. Among LMI census tracts combined, the bank's percentage of 19.7 was slightly above the aggregate level of 18.5 percent and only slightly below the 22.1 percent of AA housing units.

### **Community Development Lending**

FNBD is a leader in making community development loans.

During the current evaluation period, FNBD originated or renewed 13 community development loans totaling \$23,458,176. By dollar volume this total represents 5.3 percent of total loans, 3.7 percent of total assets, and 45.8 percent of total equity.

A significant majority of the bank's community development loans was affordable housing, multi-family HMDA loans. The remaining community development loans were commercial loans originated for economic development purposes and/or for enterprises located within LMI census tracts. The distribution of community development loans among the two individual AAs appears reasonable although no community development loans were originated within Placer County (examiners note that Placer County was not added to the bank's CAA until the third quarter of 2004). Table 6 lists the bank's community development lending; the subsequent narrative briefly describes these loans.

**Table 6**

<b>Community Development Loans – Combined Assessment Area*</b>				
<b>Assessment Area</b>	<b># of CD Loans Originated</b>	<b>% of Total CD Loans Originated</b>	<b>\$ Volume of CD Loans Originated</b>	<b>% of Total Dollar Volume of CD Loans Originated</b>
Sacramento County	1	7.7	300,000	1.3
Yolo County	6	46.1	13,732,176	58.5
Placer County	0	0.0	0	0.0
Sacramento MSA 40900 AA	7	53.8	14,032,176	59.8
Solano MSA 46700 AA	4	30.8	8,426,000	35.9
CD Loans Benefiting All AAs	2	15.4	1,000,000	4.3
<b>Total CD Loans – CAA*</b>	<b>13</b>	<b>100.0</b>	<b>23,458,176</b>	<b>100.0</b>

*Source: Bank supplied data; data lists lines of credit at their full commitment amount; data does not include the Stand-by Letter of Credit.*

### Community Development Loans

- In July of 2000 the bank consummated a \$500,000 participation in a Guidance Line of Credit (GLOC) for a statewide, non-profit community development corporation (CDC). The GLOC matures in July of 2005. The CDC's mission is to create jobs by providing financing to small businesses and community organizations involved in community development and revitalization activities which fall outside of normal bank lending practices. This loan benefits all four counties within FNBD's CAA. The current outstanding balance of this GLOC was \$208,232.
- In July of 2000 the bank consummated a \$500,000 participation in a GLOC for a statewide, non-profit community reinvestment corporation (CRC). The GLOC matures in July of 2005. The CRC's mission is to provide permanent financing for affordable housing projects throughout California. This loan benefits all four counties within FNBD's CAA. The current outstanding balance of this GLOC was \$130,908.
- On September 30, 2002, the bank originated an operating LOC of \$21,000 to a Solano County affordable housing agency. The LOC paid-off in September of 2004.
- In 2003 the bank renewed a construction/permanent loan in the amount of \$1,250,000 to an AA affordable housing cooperative. The original loan financed the construction of an affordable housing student apartment complex in Davis, Yolo County, and was supported by a Federal Home Loan Bank (FHLB) Affordable Housing Program (AHP) grant. In 2004, this LOC was renewed at the original amount of \$1,250,000. Also in 2004, the bank provided \$905,000 in construction financing to this affordable housing cooperative to build affordable housing apartments for LMI individuals in Davis.
- In April of 2001 FNBD originated a \$4,000,000 GLOC with a non-profit affordable housing corporation that buys distressed housing, rehabilitates it, and then sells or rents the housing to LMI individuals and families. For the current evaluation period, this GLOC was renewed in 2003 and 2004. This cooperative serves the affordable housing needs of Solano County. In 2003 the bank originated 11 loans totaling \$1,458,700 under this GLOC. In 2004 an additional four loans totaling \$405,500 were made under this GLOC.
- In 2003 the bank extended a \$405,000 non-revolving LOC to a private construction company to finance construction of three spec homes as affordable housing units in the Fairfield Redevelopment Zone, Solano County. Two of the homes are to be sold to low-income households participating in HUD's Section 8 Homebuyer Program.
- In 2004 the bank provided permanent financing of \$924,586 to an affordable housing limited partnership to acquire an affordable housing apartment complex in Davis.
- In 2004 the bank provided construction financing of \$6,202,590 to a Yolo County mutual housing association to build an affordable housing apartment complex in Davis. The bank provided an additional \$3,200,000 in construction financing to this association in conjunction with a \$144,000 FHLB AHP Grant to build another affordable housing apartment complex in Davis.

- In 2004 the bank made a \$300,000 term loan to enable a private party to acquire a 14-unit affordable housing apartment building in Sacramento. This loan is in a junior lien position to a City of Sacramento Redevelopment Agency first deed of trust.

#### Community Development Letters of Credit

- In April of 2003 the bank approved a \$6,000,000 participation in a \$21,900,000 Stand-by Letter of Credit (SLOC). The SLOC supports a \$32.5million economic development construction project involving mixed residential and retail properties located within a low-income census tract in downtown Sacramento. Actual financing of the project will be via tax-exempt housing revenue bonds. The complex includes 176 apartment units, of which 20 percent are to be lent to low-income individuals.

Letters of credit are not *required* to be reported for CRA purposes, and no actual monies have been disbursed by the bank in conjunction with this SLOC. Still, this SLOC is favorably considered within the bank's overall lending performance context.

#### Innovative and/or Flexible Lending Practices

FNBD uses flexible lending practices to serve the credit needs of the CAA. The bank participates with community development organizations and with state and federal agencies. The bank also developed an in-house flexible lending program.

During the evaluation period, FNBD originated 192 loans totaling \$82,653,155 under flexible lending programs. Following is a description of the bank's lending programs:

Small Business Administration (SBA) Loans – FNBD is an SBA Preferred Lender and operates two SBA Loan Department locations. During the evaluation period the bank originated 103 loans totaling \$65,550,643 (25 loans totaling \$12,161,330 benefiting the Solano AA and 78 loans totaling \$53,389,313 benefiting the Sacramento AA).

Federal Housing Authority (FHA) Loans – during the evaluation period the bank originated 12 FHA-guaranteed single-family residential mortgage loans totaling \$2,140,278. All 12 loans were originated in Sacramento County.

Northern California Small Business Financial Development Corporation (Nor-Cal FDC) – Nor-Cal FDC is a public benefit corporation chartered and regulated by the California Trade and Commerce Agency's Office of Small Business. Working with the California State Loan Guaranty Program, Nor-Cal FDC provides guarantees to local banks to finance various types of commercial loans to start-up and small businesses. The emphasis is on the creation and retention of jobs. In 2002 FNBD was designated a Nor-Cal FDC "Priority Lending Partner". Under this program, in 2001 the bank originated an equipment term loan and a revolving LOC to a small business operating in Solano County. Both loans were guaranteed 70 percent by Nor Cal FDC. During the current evaluation period, six renewals and additions to the LOC totaled \$1,275,000.

California Capital (CAL CAP) – CAL CAP is a 501(c)(3) non-profit funded by the state of California. CAL CAP's mission is to create and promote community and economic development

in underserved communities throughout Northern California. CAL CAP guarantees a portion of an equipment purchase, business expansion, or working capital loan originated by a financial institution. The guarantees are either 90 percent up to seven years for term loans or up to 85 percent for one year for revolving LOCs. The guaranty allows small businesses to obtain credit that normally would not be available from conventional sources. During the evaluation period, FNBD originated 14 loans totaling \$2,513,604 (eight loans totaling \$1,551,149 benefiting the Solano AA and six loans totaling \$962,455 benefiting the Sacramento AA).

California Public Employee Retirement System (CalPERS) Member Home Loan Program – this loan program offers to CalPERS members conventional, fixed-rate loans for the purchase or refinance of a 1-4 unit owner-occupied home, condominium, or Planned Unit Development (PUD). The program offers various flexible terms such as financing up to 100 percent loan-to-value (LTV), competitive interest rates, a 60-day rate lock with a float down feature, reduced closing costs, reduced mortgage insurance rates, and a “premium pricing” feature that allows a customer to accept a slightly higher interest rate so as to receive funds to help pay for closing costs and/or mortgage insurance. FNBD is an approved CalPERS lender. During the evaluation period, FNBD originated 57 CalPERS loans totaling \$11,173,630. Thirty-one loans totaling \$6,196,100 were originated in the Solano AA while 26 loans totaling \$4,977,530 were originated within the Sacramento AA.

Freddie Mac Section 8 Homeownership Program – Freddie Mac, working with local Public Housing Authorities (PHAs) and local lenders, purchases mortgages originated under this program that uses HUD Section 8 rental subsidies for mortgage loan payments, thereby increasing the availability of home ownership financing to LMI individuals and families. FNBD joined this program in the first quarter of 2004. One loan was transacted under this program; however, the loan was situated outside of the bank's CAA.

Agri-Access Loan Program – Agri-Access is a nation-wide facilitator for agricultural lending, specializing in small farm, hobby farm, part-time farm, and farm real estate financing. Agri-Access assists lenders in providing financing for these credits and then purchases the loans for sale on the secondary market. FNBD entered this program in January of 2005 with the goal of optimizing its small farm and hobby farm lending through ready liquidation of loans previously warehoused in-house. To date, the bank has not originated or sold any loans under this program.

Neighborhood Investment Home Improvement Loan - in August of 2003, FNBD developed the *Neighborhood Investment Home Improvement Loan* to serve the residents of Yolo, Sacramento, and Solano Counties whose household incomes are at or below 80 percent of the respective county's median income. This program offers reduced interest rates, no closing costs, fixed monthly payments for the term of the loan, and a variety of loan terms. A direct mail campaign was implemented in Suisun City (Solano County) and West Sacramento (Yolo County) in August of 2003. Despite the bank's efforts, to date no loans have been originated under this program.

These programs are not particularly innovative and are available to, and/or offered by, other financial institutions within the bank's CAA. However, the bank's programs offer a variety of flexible options and enhancements that serve to increase access to commercial, agricultural, and residential mortgage credit. The flexible terms and reduced costs employed by several of these

programs are responsive to the credit needs of LMI individuals and small/start-up businesses. Although no loans were originated under the *Neighborhood Investment Home Improvement Loan* program, the bank nonetheless took a leadership position in creating this product. Also, these programs address AA credit needs as identified by the community contact.

### **Serving the Credit Needs of the Most Economically Disadvantaged**

The bank exhibited an excellent record of serving the credit needs of the most economically disadvantaged individuals and geographies within the CAA, consistent with safe and sound practices. FNBD's small business loan distributions among LMI borrowers and within LMI geographies were excellent, while HMDA loan distributions were good. The bank's extensive volume of community development lending enhanced credit availability to LMI individuals, families, and geographies, as well as to small businesses and farms. The bank made good use of flexible, although not particularly innovative, lending programs.

### **INVESTMENT TEST**

The FDIC evaluates the investment performance of a bank pursuant to the following four criteria:

- 1) The dollar amount of qualified investments;
- 2) The innovativeness or complexity of qualified investments;
- 3) The responsiveness of qualified investments to credit and community development needs; and
- 4) The degree to which the qualified investments are not routinely provided by private investors.

FNBD is rated "High Satisfactory" for the Investment Test.

Overall investment performance is good. The institution maintained a significant level of qualified community development investments, grants, and donations that demonstrated good responsiveness to AA credit and community economic development needs. During the current evaluation period, the institution took a leadership position in transacting a complex affordable housing investment. With the exception of this one current-period investment, the bank's qualified bond and equity investments were not particularly complex or innovative, or exclusive to FNBD.

Although the bank originated only one new qualified investment during the current evaluation period, the total dollar amount of qualified investments, grants, and donations; the level of benefit and responsiveness to AA credit and community development needs provided by these investments, grants, and donations; and the complexity of, as well as the leadership position evidenced by, the one current-period investment, are significant enough to warrant a "high satisfactory" rating. The bank's investments also address affordable housing and economic development needs identified by the community contact.

The one new qualified investment totaled \$2,355,000 at origination, while the outstanding balance as of 12/31/04 of 10 qualified investments from the previous performance evaluation totaled \$4,007,648. Total qualified grants and donations transacted during the current evaluation period

equaled \$111,125.32 (refer to Table 7). The total current and outstanding prior-period investment of \$6,473,773.32 represents 1.0 percent of total assets and 12.6 percent of total equity. Counting only the one qualified investment and the qualified grants and donations originated during the current evaluation period at their original values, total qualified investments equal \$2,466,125.32, which represents 0.4 percent of total assets and 4.8 percent of total equity.

### **Qualified Bond and Equity Investments**

#### **Current Evaluation Period**

- In July of 2002 FNBD purchased a \$2,355,000 partnership interest in a 116-unit independent living facility for seniors age 55 and older. The complex is located in the community of Citrus Heights, Sacramento County, and hosts a majority of LMI tenants: 21 percent at 50 percent of the area median income, 58 percent at 60 percent of the area median income, and 21 percent at 80 percent of the area median income. The bank's investment represented a 99.99 percent interest in a tax credit fund specifically established by the bank in conjunction with a nationally known affordable housing agency (which controlled the remaining 0.01 percent of the fund). The genesis of this investment was the effort and initiative of the bank's West Sacramento Branch Manager. In 2004 the bank again joined forces with the housing agency and incorporated a second affordable housing complex into the fund: a renovated (previously vacant) 82-unit senior housing complex located in downtown Sacramento. Twenty percent of the units are restricted to senior tenants with incomes at or below 50 percent of the area median income with the remaining 80 percent restricted to senior tenants at or below 60 percent of the area median income. To support financing for the additional project, the bank folded both housing projects into a new fund and, in conjunction with the housing agency, solicited and obtained investments from five other California banks. From April to November of 2004, the bank pledged a future commitment of \$1 million to support the new fund; however, this commitment was never originated or drawn upon. As a principal of the fund, the bank was also required to maintain a \$1,989,000 surety bond.

#### **Previous Evaluation Period (all outstanding balances are as of 12/31/04)**

- An equity investment of \$50,000 in a statewide, 501(c)(3) non-profit community development corporation (CDC). The investment was transacted on 07/15/99 with a current balance of \$50,000. This CDC's mission is to address unmet credit needs for small businesses and community economic development, to promote job creation and retention efforts, and to support existing networks of community development organizations throughout California.
- An equity investment of \$50,000 in a statewide, 501(c)(3) non-profit community reinvestment corporation (CRC). The investment was transacted in July of 2000 with a current balance of \$50,000. This CRC's mission is to provide permanent financing for affordable housing projects throughout California.

- A multi-family housing revenue bond issued by a statewide affordable housing agency. The investment was originated on 11/14/95 at \$500,000 and matures on 02/01/06. The outstanding balance was \$80,000. The purpose of this bond is to provide construction and/or permanent financing loans for multifamily residential projects. These loans are insured by the FHA.
- An economic development bond issued by a municipal redevelopment agency. The investment was originated on 12/19/95 at \$330,000 and matures on staggered dates between 09/01/05 and 09/01/07. The outstanding balance was still \$330,000. The purpose of this bond is to finance various public improvements within the framework of the Central Dixon Redevelopment Project, an economic development project benefiting the City of Dixon in Solano County. The improvements include a new police station and senior center which are essential public services. In addition, the bond proceeds will go to redevelopment efforts in the industrial area of Dixon and to improvements along North First Street, both LMI geographies. Portions of this bond are also set aside in a LMI housing development fund.
- An economic development bond issued by a municipal public financing authority. The investment was transacted on 02/14/96 at \$300,000 and matures on 09/01/08. The outstanding balance was still \$300,000. The purpose of this bond is to finance various public improvements within the framework of the Vacaville Community Redevelopment Project, an economic development project benefiting the City of Vacaville in Solano County. Portions of this bond are set aside in a LMI housing development fund.
- An economic development bond issued by a municipal redevelopment agency. This investment was transacted on 4/28/98 at \$790,000 and matures on 11/01/08. The outstanding balance was still \$790,000. The purpose of this bond is to finance various public improvements within the framework of the Merged Downtown Sacramento Redevelopment Project. The project area includes approximately 430 acres (109 city blocks) encompassing the central business district of Sacramento and the adjacent portion along the Sacramento River. The principal objective is to revitalize blighted areas by strengthening retail and other commercial activities through the improvement and development of cultural and public amenities. It also seeks to expand and enhance the area's supply of housing, including LMI housing.
- A Tax Allocation Note issued on behalf of a municipal redevelopment agency. This investment was transacted on 05/17/01 at \$800,000 and matures on 08/01/06. The outstanding balance was 532,648. This tax increment financing is for street and utility improvements within the Cordelia Project Area of the Fairfield Redevelopment Agency (FRA). The FRA's mission is to promote economic development within and around the City of Fairfield, Solano County. The Cordelia Project Area contains approximately 2,637 acres and includes portions of Fairfield and Suisun City, Solano County. Suisun City is located within a moderate-income geography.
- A capital improvement bond issued by the Esparto Unified School District, Yolo County. This investment was transacted on 08/01/97 at \$1,000,000 and matures on staggered

dates between 08/01/02 and 08/01/14. The outstanding balance was \$250,000. The purpose of this bond is to acquire land for a new middle school and to improve and modernize an elementary school. A majority of students served by these two schools are LMI, as evidenced by the 65 percent (elementary) and 57 percent (middle) enrollment in the State of California Meal Program for needy children.

- A capital improvement bond issued by the Winters Unified School District, Yolo County. This investment was transacted on 07/01/00 at \$1,150,000 and matures on staggered dates between 07/01/02 and 07/01/20. The outstanding balance was \$1,045,000. The bond proceeds will be used to complete the construction of a new elementary school. The existing elementary school serves 1st through 6th grades. Upon completion of the new school, grades 1st through 3rd will be relocated to the new facility. The majority of students attending this elementary school (55 percent) receive subsidized lunches under the State of California Meal Program for needy children.
- A capital improvement bond issued by the Dixon Unified School District, Solano County. This investment was transacted on 05/08/01 at \$580,000 and matures on staggered dates between 09/01/11 and 09/01/14. The outstanding balance was \$580,000. The purpose of this bond is to build a new elementary school in Dixon, to alleviate current overcrowding at two current schools located in the nearby communities of Anderson and Silveyville, and to provide for future growth. Children from the existing elementary schools will be relocated to the new facility. A majority of students at Anderson (67 percent) and Silveyville (68 percent) receive free or subsidized lunches under the State of California Meal Program for needy children.

### **Qualified Grants and Donations**

During the evaluation period, FNBD transacted 173 community development grants and donations totaling \$111,125.32. These grants and donations benefited LMI individuals, families, and geographies, as well as small businesses and small farms, and supported the full menu of community development activities including economic development; affordable housing; and health, education, social services. Table 7 lists these grants and donations by county and assessment area.

***Table 7***

<b>Qualified Grants and Donations by County and Assessment Area – Combined Assessment Area</b>		
<b>County / Assessment Area</b>	<b>#</b>	<b>\$</b>
Sacramento County	11	5,217.50
Yolo County	76	44,152.85
Placer County	7	4,280.22
Sacramento MSA 40900 AA	94	53,650.57
Solano MSA 46700 AA	79	57,474.75
<b>Total CD Grants &amp; Donations – CAA</b>	<b>173</b>	<b>111,125.32</b>

*Source: Bank supplied data*

## **SERVICE TEST**

The Service Test evaluates a bank's record of helping to meet the credit needs of its AAs by analyzing both the availability and effectiveness of a bank's systems for delivering retail banking services and the extent and innovativeness of its community development services. The FDIC evaluates the availability and effectiveness of a bank's systems for delivering retail banking services pursuant to the following six criteria:

- 1) The current distribution of the bank's branches among low-, moderate-, middle-, and upper-income geographies;
- 2) The bank's record of opening and closing branches, particularly branches located in LMI geographies or primarily serving LMI individuals;
- 3) The availability and effectiveness of alternative systems for delivering retail banking services in LMI geographies and to LMI individuals;
- 4) The range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies;
- 5) The extent to which the bank provides community development services; and
- 6) The innovativeness and responsiveness of community development services.

FNBD is rated "Outstanding" for the Service Test.

### **Retail Banking Services**

#### **Accessibility of Delivery Systems**

FNBD's retail delivery systems are accessible to essentially all portions of the institution's CAA.

#### **Retail Branches, Loan Production Offices (LPOs), and Automated Teller Machines (ATMs)**

FNBD operates 13 branches, 15 ATMs, five LPOs, and one central administration/operations office.

Eleven of the 13 branches are full-service facilities while two branches are limited-service facilities. Ten of the 11 full-service branches maintain ATM's while two branches maintain two ATMs each. Branch ATMs accept deposits and dispense cash. The remaining three ATMs are stand-alone facilities that dispense cash but do not accept deposits: two are attached to grocery stores while one is located on the campus of the University of California at Davis. Table 8 illustrates the distribution of the bank's brick-and-mortar facilities within the bank's CAA.

**Table 3**

Census Tract Income Category	Census Tracts in Assessment Area		Total Population		Brick-and-Mortar Facilities*		ATMs	
	#	%	#	%	#	%	#	%
Low	28	6.8	118,435	6.3	1	5.6	2	13.3
Moderate	106	25.8	489,061	25.9	4	22.2	4	26.7
Middle	163	39.7	747,792	39.6	9	50.0	8	53.3
Upper	113	27.5	529,573	28.0	4	22.2	1	6.7
N/A	1	0.2	3,390	0.2	0	0.0	0	0.0
<b>Total</b>	<b>411</b>	<b>100.0</b>	<b>1,888,251</b>	<b>100.0</b>	<b>18</b>	<b>100.0</b>	<b>15</b>	<b>100.0</b>

\* Low income tracts contain one full-service branch; moderate-income tracts contain three full-service branches and one LPO; middle-income tracts contain five full-service branches, three LPOs, and the bank's administration/operations center; upper-income tracts contain two full-service branches and two limited-service branches. The total of 18 facilities does not include the bank's fifth LPO located in El Dorado County, part of the Sacramento MSA 40900 but outside the bank's delineated assessment area.

FNBD's branch and ATM networks are well distributed throughout the CAA's low-, moderate-, middle-, and upper-income census tracts and reasonably parallel the area's demographic profile. Most notable is the bank's physical presence among LMI census tracts, particularly the location within moderate-income tracts of two full-service branches: the main office in Dixon (First Street Branch) which houses one of the bank's two locations for its Investment and Brokerage Services Department, and the J Street branch in Sacramento which houses the bank's Asset Management and Trust Department, one of the bank's two locations for its SBA Loan Department, and the second location of the bank's Investment and Brokerage Services Department. Also, one of the bank's two limited-service branches (both located within senior living retirement centers) serves the banking needs of an affordable housing complex within one of the retirement centers.

### **Changes in Branch Locations**

To the extent changes have been made, FNBD's record of opening and closing branches has improved the accessibility of its delivery systems, particularly in LMI geographies and to LMI individuals.

FNBD did not close any branches or ATMs during the current evaluation period. The bank opened two new full-service branches during the evaluation period: one in a moderate-income census tract in Sacramento in October of 2002 and one in an upper-income census tract in Roseville, Placer County, in January of 2005. The bank also opened one new LPO in July of 2003 in a moderate-income census tract in Woodland, Yolo County.

### **Alternative Delivery Systems**

#### **Automated Teller Machines**

Table 8 and the attendant narrative discuss the bank's ATM network.

### Internet Banking and Telebanking

FNBD maintains an Internet web site through which it offers a wide variety of online banking services. These services involve inquiry, transfer, and transactional capabilities relating to loans, deposits, and investment accounts; on-line loan and deposit applications; and automated clearinghouse (ACH) and electronic funds transfer (EFT) transactions such as direct deposit, wire transfers, bill payment, EFTPS tax payments, accounts receivable electronic lock box, and automatic loan payments. The institution's web site also contains information concerning the bank's history, corporate profile and management, assessment area, branch operations, products and services, employment and career opportunities, community involvement and reinvestment, financial education and calculation tools, and non-deposit investment products. E-mail is also available online.

The institution operates a 24-hour telephone banking service involving information, inquiry, and transfer capabilities for loan and deposit accounts.

Both Internet banking and telebanking are accessible throughout the bank's CAA.

### Reasonableness of Services and Business Hours in Meeting Assessment Area Needs

Services are tailored to the convenience and needs of the CAA, particularly LMI geographies and individuals.

FNBD offers an expansive menu of loans; deposits; asset management and trust services; courier services; internet, electronic, and telephonic services; non-deposit investment and insurance products; business cash management services; ATM and check card services; and document imaging. The bank can also facilitate certain foreign trade transactions such as foreign currency and international money orders. Other products and services include installment collections, legal process, notary service, payroll service, statement and account reconciliation, savings bonds, night deposit, safe deposit, money orders, cashiers checks, and traveler's checks.

FNBD offers non-deposit investment products (NDIPs) through an agreement with Raymond James Financial Services, Inc. (RJFS), an independent registered broker/dealer and member NASD/SIPC. NDIPs and insurance products are underwritten by non-affiliated investment and/or insurance firms. Brokerage services are provided both on-line and on-site at duly segregated and disclosed locations on bank premises by licensed broker/dealers. Products and services offered by FNBD through RJFS include equity stocks, bonds, annuities, mutual funds, IRAs, insurance, tax planning, and retirement planning.

The bank's Asset Management and Trust Department offers conventional trust and asset protection/management services for individuals, pension and profit sharing plans, retirement funds, foundations, endowments, and trusts. This department also provides assistance in arranging sales, mergers, or acquisitions of, or for, large businesses, as well as consultation services for owners of privately held smaller businesses that may be interested in a public offering.

Business hours do not vary in a way that inconveniences certain portions of the CAA, particularly LMI geographies and/or individuals. Fourteen of the 15 ATMs (93 percent), Internet banking, and

telebanking offer 24-hour access. Full-service branches are open Monday through Thursday generally from 9:00AM to 4:00 or 5:00PM and on Friday generally from 9:00AM to 6:00PM. Two branches offer full-day drive-up service; one of these branches is located within a low-income census tract while the second is in a moderate-income tract. A third branch, located in a middle-income tract, offers full-day walk up service. The two limited-service branches located in senior retirement centers offer banking services Mondays, Wednesdays, and Fridays at one branch and Tuesdays and Thursdays at the other branch.

### **Community Development Services**

FNBD is a leader in providing community development services. The bank's community development services, products, and activities have benefited all LMI segments of its AAs and have involved the areas of affordable housing; economic development and assistance to small businesses and farms; personal financial education and counseling; employment assistance and job training; health, education, and food assistance; social and legal services; and bank account services. On several occasions the bank took a leadership position and/or provided innovative services within its AAs. Following is a description of some of the bank's more expansive community development services, products, and activities.

**Smart Savers Program** - during the 2000/2001 school year, FNBD piloted its own in-school savings program with a 2<sup>nd</sup> grade class at a West Sacramento elementary school, Yolo County. The bank's program was titled *Smart Savers*. With teacher assistance, weekly deposits are collected from the students and deposited at the bank's West Sacramento Branch via the night drop. The pilot program included a school visit by West Sacramento Branch representatives, student workbooks, a teacher's guide, savings account statements, Smart Savers Certificates, savings-focused coloring books, birthday cards from the bank sent to kids on their birthday, and a class tour of the West Sacramento Branch. The Smart Savers Program has grown to serve eight classrooms at this elementary school. This school hosts LMI students as evidenced by the fact that 100 percent of students have been qualified for free or subsidized lunches under the State of California Meal Program for needy children.

**Radio Spots** - in August 2004 FNBD began a community outreach radio campaign where non-profit organizations engaged in community development activities are featured in 60-second radio spots airing on a local Solano County radio station. In the radio spots paid for by FNBD, the bank president discusses FNBD's focus on the community and its desire to partner with organizations that are helping the community. Also in the radio spots, a spokesperson from the non-profit organization is given half the air time to talk about the non-profit's mission, an upcoming fundraising event, or to inform the community of how they can become involved in the organization. FNBD ran 240 spots in 2004 and is contracted to run 576 spots in 2005.

**Get Checking** - in June of 2003 FNBD partnered with a consumer credit counseling service to offer a program called *Get Checking* to help consumers who have a history of poorly managed personal accounts re-enter the banking mainstream. The program involves consumer education focusing on basic banking skills and financial principles, passing a test, and clearing outstanding monies owed. The program serves mostly LMI individuals in Sacramento, Yolo, Placer, and Solano Counties.

Affordable Housing - in November 2004 FNBD established a special partnership with a Yolo County affordable housing agency. The bank offered to be a collection site for this agency for a period of six months to assist them with their current "build project" in Woodland, Yolo County. A collection box was placed in each of FNBD's eight Yolo County facilities (four full-service branches, two limited-service branches, and two LPOs). The Bank also offered to match the funds collected via the bank's collection boxes up to an amount of \$5,000. Other services provided to this agency have included flier, newsletter, and fundraiser material design and printing.

California Electronic Benefit Program - in July of 2002 FNBD became a participant in California's pilot program for *Electronic Benefit Transfer (EBT)*. Participation by financial institutions in EBT was optional. EBT electronically transacts the distribution of food stamp benefits via a debit card used at ATMs and Point-of-Sale (POS) terminals, making the issuance of state public assistance and federal food stamp benefits faster and easier. EBT cards are issued by county welfare departments and mailed to the EBT client. This program benefits LMI individuals in Sacramento, Yolo, Placer, and Solano Counties.

Electronic Transfer Account - FNBD began participating in the U.S. Department of the Treasury's *Electronic Transfer Account (ETA)* at the onset of the program in 1999. The ETA is designed to provide individuals with a low-cost way to receive their federal benefit payments such as social security, supplemental security income, veterans' benefits, etc. Many of the individuals utilizing this service are LMI. This program benefits individuals in Sacramento, Yolo, Placer, and Solano Counties.

Account Services for Community Development Non-Profits - FNBD promotes community development by providing non-profit organizations checking accounts with a low monthly service charge. In fact, there was no monthly service charge for non-profits until May of 2004, when a service charge was established at \$3. The bank has over 1,679 non-profit checking accounts. In addition, the bank has 354 savings accounts and 163 certificates of deposit for the non-profit sector. Many of these non-profits provide services to LMI individuals, families, and/or geographies. In addition, the bank provides checking account services with no monthly service charge, and is pledging \$202,000 in securities as collateral, to the U. S. Department of Agriculture - Rural Development, for an affordable housing property management customer (ongoing since May 1, 2002). These services benefit Sacramento, Yolo, Placer, and Solano Counties.

Check Cashing Services - since 1997, FNBD has been providing check cashing services to 370 low-income individuals who have been placed under the care of the Yolo County Public Guardian. In 2001, FNBD began banking the Solano County Public Guardian which involves providing over 700 hundred low-income individuals check cashing services at the bank's Solano County branches. FNBD negotiated an arrangement for check cashing services at a competitor institution to make the process easier for individuals who live in areas not served by FNBD branches.

## **COMPLIANCE WITH ANTI-DISCRIMINATION LAWS**

No substantive violations of the anti-discrimination laws were identified.

## **METROPOLITAN AREAS – FULL SCOPE EVALUATION**

### **DESCRIPTION OF THE SACRAMENTO MSA 40900 ASSESSMENT AREA**

The Sacramento AA consists of all of Sacramento, Yolo, and Placer Counties. MSA 40900 also includes El Dorado County; however, FNBD does not include this county within its CAA.

#### **Demographic Profile**

##### **Sacramento County**

Sacramento County contains 279 census tracts: 26 low-income census tracts, 81 moderate-income tracts, 103 middle-income tracts, and 69 upper-income tracts. Sacramento County is the residential, commercial, and financial center of the Sacramento AA. As of June 30, 2004, Sacramento County hosted 16,689,476 in FDIC-insured deposits, representing 63.8 percent of the four-county area's (Sacramento, Yolo, Placer, Solano) total deposit base. Per the 2000 U.S. Census, total county population stood at 1,223,449, or 74.6 percent of the Sacramento AA's total of 1,640,558 persons and 64.8 percent of the CAA's total of 1,888,251.

Sacramento County's economy is supported by a total labor force of 587,086 workers. Unemployment as of 2000 was 6.64 percent compared to 6.95 percent for the state. The Sacramento Area Council of Governments (SACOG) projects employment to increase by nearly 61,000 over the next five years.

Ongoing, large-scale residential development that is broadly spread throughout Sacramento County has increased the county's household inventory by 10 percent over the past five years, pushing total households to 453,841 units per the 2000 U.S. Census. SACOG projects households to increase by nearly 47,000 over the next five years. Sacramento County's median housing value is \$154,357 compared to \$258,376 for the state.

With massive population and employment, retail trade is a major economic factor, encompassing 25 million square feet of broadly distributed space within retail complexes and districts within the county. Ten million square feet of mostly Class A office space is located in downtown Sacramento, about 25 percent of the 40 million square feet of leasable private space located throughout the county. This excludes a huge inventory of state, county, city and federal government space that in aggregate makes government a huge economic factor as well as an enormous user of banking services. The county has a broadly distributed base of nearly 100 million square feet of industrial space, which excludes company-owned buildings and campuses.

While Sacramento is the largest and most developed urban center within the CAA, Sacramento County also encompasses substantial agribusiness production.

##### **Placer County**

Placer County contains 51 census tracts: three moderate-income census tracts, 27 middle-income tracts, and 21 upper-income tracts. Placer County does not contain any low-income census tracts.

Placer County encompasses a huge and diverse landmass stretching from the dense urban development of Roseville/Rocklin eastward through the Auburn foothills into the Tahoe National Forest to the Nevada State Line and Lake Tahoe. As a result, the county economy is substantially impacted by recreation and tourism as well as by mining and agribusiness; together these economic sectors dominate the eastern half of Placer County.

The west side is dominated by dense office, business park, industrial, and retail trade development. This development supports a rapidly growing residential base that has seen Placer County's household inventory increase by 28 percent over the past five years to reach 93,510 units as of the 2000 census. SACOG projects households to expand by 12,000 units over the next five years. Placer County's median housing value is \$225,631 compared to \$258,376 for the state.

Roseville is the financial center of the county's rapidly developing commercial sector that encompasses more than 20 million square feet of industrial, six million square feet of retail, and four million square feet of high quality office space. All three of these commercial sector elements are experiencing wide-scale expansion that is most concentrated along the I-80 Corridor of Roseville and Rocklin between Granite Bay on the east and Lincoln to the west.

Per the 2000 U.S. Census, the Placer County labor force stands at 123,875 persons. Unemployment is relatively low at 4.01 percent compared to 6.95 percent for the state. SACOG projects employment to expand by 25,000 persons over the next five years.

Like the other three AA counties, agribusiness substantially impacts the Placer County economy.

#### Yolo County

Yolo County encompasses 37 census tracts: two low-income census tracts, 10 moderate income tracts, 11 middle-income tracts, and 14 upper-income tracts. Yolo County combines suburban and rural market characteristics with a diverse economy and culture rooted in agribusiness, industry, warehousing, and education. Yolo County is host to the University of California at Davis, which employs 17,000 people in support of a student enrollment that exceeds 30,000.

Like adjacent Solano County, households have increased by 11 percent over the past five years to a total of 59,358 units. This includes substantial ongoing residential development in the communities of Woodland, Davis, West Sacramento, and Winters. These four markets all host FNBD offices. SACOG projects household growth of at least 6,000 units over the next five years.

Per the 2000 U.S. Census, Yolo County's labor force stands at 82,713 persons. Unemployment stands at 7.13 percent compared to 6.95 percent for the state. SACOG projects employment growth of at least 16,000 persons over the next five years.

Commercial growth is focused around Davis, Woodland and West Sacramento, which form a developmental triangle sharing large scale growth while maintaining different market characteristics. The Davis economy and culture is rooted in UC Davis while West Sacramento is dominated by industry and Woodland by warehousing due to its key position surrounding the Interstate 5/Highway 113 junction, a significant transportation nexus.

Inside and surrounding this triangle throughout the remainder of Yolo County is significant agribusiness production that substantially impacts the county's economy.

#### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE SACRAMENTO MSA 40900 ASSESSMENT AREA**

The Sacramento AA encompasses the majority of FNBD's branch structure, operations, deposit base, and lending activity. The Sacramento AA hosts six of the bank's 11 full-service branches (54.6 percent), both limited-service branches, and three of five LPOs (60.0 percent). The AA also contains six of 15 ATMs (40 percent). As of June 30, 2004, FNBD's total Sacramento AA deposits equaled \$310,120,000, or 59.7 percent of the four-county total (Sacramento, Placer, Yolo, and Solano) of \$519,740,000. During calendar-year 2004, the Sacramento AA accounted for 68.7 percent by number, and 74.5 percent by dollar volume, of FNBD's total in-assessment-area small business lending. The AA accounted for 65.9 percent by number, and 66.7 percent by dollar volume, of the bank's total in-assessment-area HMDA lending.

#### **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE SACRAMENTO MSA 40900 ASSESSMENT AREA**

Overall performance within the Sacramento AA does not materially differ from the bank's overall performance throughout the CAA.

#### **LENDING TEST**

FNBD demonstrated excellent overall lending performance within the Sacramento AA. As this AA contains the majority of the bank's branch structure, lending volume, and deposit market share, the bank's lending performance within this AA closely parallels performance for the CAA.

#### **Lending Activity**

FNBD's overall lending performance within this AA demonstrates good responsiveness to community credit needs and reasonably reflects this AA's proportionate demographic and economic profiles. The majority of both small business and HMDA loans originated within the CAA were transacted within the Sacramento AA. The bank originated a majority of its community development loans and its flexible lending program loans, both by count and dollar volume, within the Sacramento AA.

#### **Borrower Profile**

FNBD exhibited excellent borrower profile performance within this AA. For both small business lending and HMDA lending, greater weight was placed upon comparisons to aggregate lending rather than demographic profile as the aggregate data more effectively reflects the effects of market share and competition within the overall analysis.

## Small Business Loans

FNBD's performance reflects an excellent level of penetration among businesses of different GAR levels. Table 9 details the bank's borrower profile performance as to small business loans.

**Table 9**

Distribution of Small Business Loans by Business Revenue – Sacramento MSA 40900 Assessment Area						
Borrower Revenue Level	AA Businesses*		2003 Aggregate Lending Data**		FNBD 2004 Small Business Loans	
	#	%	#	%	#	%
GAR ≤ \$1Million	65,519	64.0	17,466	36.6	156	43.8
GAR > \$1Million	36,845	36.0	30,242	63.4	200	56.2
Total	102,364	100.0	47,708	100.0	356	100.0

\* 2004 Dun & Bradstreet data

\*\* Aggregate CRA data for all financial institutions that originated small business loans within FNBD's Sacramento AA during calendar-year 2003; GAR > \$1million includes businesses that did not report revenue

For this AA, the bank originated 43.8 percent of its year-2004 small business loans to small business with GARs of less than or equal to \$1million. Although the bank's percentage is below the level of small businesses within this AA, it noticeably exceeds the 36.6 percent aggregate level achieved by competitor banks.

## HMDA Loans

FNBD's performance reflects a good level of penetration among individuals of different GAI levels. Table 10 details the bank's borrower profile performance as to HMDA loans.

**Table 10**

Distribution of HMDA Loans by Borrower Income – Sacramento MSA 40900 Assessment Area				
Borrower Income Level*	AA Households	2003 Aggregate Lending Data**	FNBD 2004 HMDA Loans	
	%	%	#	%
Low	6.5	3.4	7	6.1
Moderate	25.8	13.6	13	11.4
Middle	38.9	26.2	27	23.7
Upper	28.8	50.2	65	57.0
Income Not Reported	0.0	6.6	2	1.8
Total	100.0	100.0	114	100.0

\* Borrower income stratification based upon HUD estimated median family income

\*\* Aggregate HMDA data for all financial institutions that originated HMDA loans within FNBD's Sacramento AA during calendar-year 2003

FNBD lent among all income levels of borrower. Among low-income borrowers, the bank's percentage of 6.1 percent was above the aggregate level of 3.4 percent and comparable to the household level of 6.5 percent. The bank's 11.4 percent penetration among moderate-income borrowers was below the aggregate level of 13.6 percent and below the household level of 25.8 percent. Taken together, the bank's level of lending among LMI census tracts stood at 17.5 percent, comparable to the aggregate level of 17.0 percent. Distribution among middle- and upper-income borrowers was somewhat mixed: lending among middle-income borrowers was below both aggregate and household percentages while lending among upper-income borrowers was above both aggregate and household percentages.

### **Geographic Distribution**

FNBD exhibited excellent geographic distribution performance. For both small business lending and HMDA lending, greater weight was placed upon comparisons to aggregate lending rather than demographic profile as the aggregate data more effectively reflects the effects of market share and competition within the overall analysis.

### **Small Business Loans**

FNBD's performance reflects an excellent distribution of small business loans by income category of census tract. Table 11 illustrates the bank's geographic distribution within the Sacramento AA.

*Table 11*

<b>Geographic Distribution of Small Business Loans by Census Tract Income Category— Sacramento MSA 40900 Assessment Area</b>				
<b>Census Tract Income Category*</b>	<b>AA Businesses*</b>	<b>2003 Aggregate Lending Data**</b>	<b>FNBD 2004 Small Business Loans</b>	
	<b>%</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	8.6	7.1	73	20.5
<b>Moderate</b>	25.1	21.9	107	30.1
<b>Middle</b>	37.7	38.2	91	25.5
<b>Upper</b>	28.6	32.8	85	23.9
<b>Income Not Reported</b>	0.0	0	0	0.0
<b>Total</b>	100.0	100.0	356	100.0

\* 2004 Dun & Bradstreet data

\*\* Aggregate CRA data for all financial institutions that originated small business loans within FNBD's Sacramento AA during calendar-year 2003

The bank's overall small business loan distribution is well balanced as the bank lent among all income categories of census tract. The bank's distributions among both low- and moderate-income census tracts significantly exceed both the aggregate levels and the percentages of businesses within each census tract income category. The bank's percentage of 20.5 among low-income tracts is particularly noteworthy.

## HMDA Loans

FNBD's performance reflects a good distribution of HMDA loans by income category of census tract. Table 12 illustrates the bank's geographic distribution within the Sacramento AA.

*Table 12*

<b>Geographic Distribution of HMDA Loans by Census Tract Income Category – Sacramento MSA 40900 Assessment Area</b>				
<b>Census Tract Income Category*</b>	<b>AA Owner-Occupied Housing Units</b>	<b>2003 Aggregate Lending Data*</b>	<b>FNBD 2004 HMDA Loans</b>	
	<b>%</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	3.7	3.4	1	0.9
<b>Moderate</b>	19.5	15.9	22	19.3
<b>Middle</b>	40.6	37.7	42	36.8
<b>Upper</b>	36.2	43.0	49	43.0
<b>Income Not Reported</b>	0.0	0.0	0	0.0
<b>Total</b>	100.0	100.0	114	100.0

*\* Aggregate HMDA data for all financial institutions that originated HMDA loans within FNBD's Sacramento AA during calendar-year 2003*

The bank's overall distribution appears reasonable and the bank lent among all income categories of census tract. The bank's 0.9 percent dispersion among low-income tracts was less than the levels for both aggregate lenders and AA housing units. However, the bank's performance among moderate-income tracts was stronger at 19.3 percent, comfortably above the aggregate level of 15.9 percent and comparable to the 19.5 percent of AA housing units. Among LMI census tracts combined, the bank's percentage of 20.2 was slightly above the aggregate level of 19.3 percent and below the 23.2 percent of AA housing units.

## Community Development Lending

FNBD was a leader in community development lending within the Sacramento AA. Seven of the bank's 13 community development loans (53.8 percent) totaling \$14,032,176 (59.8 percent) benefited the Sacramento AA. Additionally, two community development loans totaling \$1,000,000 benefited all AAs. Please refer to the CAA Community Development Lending section beginning on page 13 of this evaluation for details.

## Innovative or Flexible Lending Practices

The bank made use of flexible, though not particularly innovative, lending programs within the Sacramento AA. During the evaluation period, the bank originated 122 loans totaling \$61,469,576 within this assessment area. These totals represent 63.5 percent by count, and 74.4 percent by dollar volume, of flexible program loans originated throughout the CAA.

### **Serving the Credit Needs of the Most Economically Disadvantaged**

The bank exhibited an excellent record of serving the credit needs of the most economically disadvantaged individuals and geographies within the Sacramento AA, consistent with safe and sound practices. FNBD's small business loan distributions among LMI individuals and within LMI geographies were excellent, while HMDA loan distributions were good. The bank's volume of community development lending enhanced credit availability to LMI individuals, families, and geographies, as well as to small businesses and farms. The bank made good use of flexible, although not particularly innovative, lending programs.

### **INVESTMENT TEST**

FNBD transacted a significant level of qualified investments, grants, and donations within the Sacramento AA. The one qualified investment of \$2,355,000 that was originated during the current evaluation period provided affordable housing within Sacramento County. Of the 10 qualified investments originated prior to the current evaluation period, three investments, with a total outstanding balance as of 12/31/04 of \$2,085,000, directly benefited Sacramento and Yolo Counties, while the remaining three statewide investments, with an outstanding balance of \$180,000, benefited both the Sacramento AA and the Solano AA.

Of the 173 qualified grants and donations transacted by the bank during the current evaluation period, 94 (54.3 percent) totaling \$53,650.57 (48.3 percent) benefited all three counties within this AA. Please refer to the CAA's Investment Test section of this evaluation for further details.

### **SERVICE TEST**

FNBD's overall service performance exhibited excellent responsiveness to the credit, product, and service needs of the Sacramento AA.

#### **Retail Banking Services**

##### **Accessibility of Delivery Systems**

FNBD's retail delivery systems are accessible to essentially all portions of this AA.

##### **Retail Branches, LPOs, and ATMs**

The Sacramento AA constitutes the predominant geographic and demographic portion of the bank's CAA. As shown in Tables 8 and 13, this AA hosts a majority of the bank's branches and LPOs (11 of 18 – 61.1 percent), and six of 15 ATMs (40.0 percent). Also, this AA hosts the bank's Asset Management and Trust Department, one of two Investment and Brokerage Services Department locations, and one of two SBA Loan Department locations.

As shown in Table 13, the bank's branches, LPOs, and ATMs are reasonably distributed

throughout the AA. Of note is this AA's strong physical presence within LMI census tracts. Also, this AA's Asset and Trust Management, Investment and Brokerage, and SBA locations, all situated within the Sacramento J Street Branch, are located within a moderate-income census tract.

**Table 13**

<b>Branch, ATM, and LPO Distribution by Income Category of Census Tract— Sacramento MSA 40900 Assessment Area</b>								
<b>Census Tract Income Category</b>	<b>Census Tracts in Assessment Area</b>		<b>Total Population</b>		<b>Brick and Mortar Facilities*</b>		<b>ATMs</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	28	7.6	118,435	7.2	1	9.1	2	33.3
<b>Moderate</b>	94	25.6	430,570	26.3	3	27.3	2	33.3
<b>Middle</b>	141	38.4	616,765	37.6	4	36.3	2	33.4
<b>Upper</b>	104	28.4	474,788	28.9	3	27.3	0	0.0
<b>N/A</b>	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total</b>	367	100.0	1,640,55	100.0	11	100.0	6	100.0

\* The low-income facility is a full-service branch; the moderate-income tracts contain two full-service branches and one LPO; the middle-income tracts contain two full-service branches and two LPOs; the upper-income tracts include one full-service branch and two limited-service branches

### **Changes in Branch Locations**

To the extent changes have been made, FNBD's record of opening and closing branches has improved the accessibility of its delivery systems, particularly in LMI geographies and to LMI individuals.

FNBD did not close any branches or ATMs during the current evaluation period. The bank opened two new full-service branches during the evaluation period: one in a moderate-income census tract in Sacramento in October of 2002 and one in an upper-income census tract in Roseville, Placer County, in January of 2005. The bank also opened one new LPO in July of 2003 in a moderate-income census tract in Woodland, Yolo County.

### **Alternative Delivery Systems**

#### **Automated Teller Machines**

Table 13 and the attendant narrative discuss the bank's ATM network.

#### **Internet Banking and Telebanking**

FNBD's Internet banking and telebanking services are accessible throughout the Sacramento AA.

### **Reasonableness of Services and Business Hours in Meeting Assessment Area Needs**

#### **Services and Business Hours**

Services are tailored to the convenience and needs of the Sacramento AA. All services and products offered by the bank are readily available within this AA. Business hours do not vary in

a way that inconveniences certain portions of this AA, particularly LMI geographies and/or individuals. Hours of operation in this AA do not materially differ from those for the CAA or for the Solano AA. Please refer to the CAA's Service Test section of this evaluation for details.

#### **Community Development Services**

FNBD is a leader in providing community development services within the Sacramento AA. A majority of the bank's community development services directly or indirectly benefited the Sacramento AA. Please refer to the CAA Community Development Services section beginning on page 24 of this evaluation for details.

## **METROPOLITAN AREAS – LIMITED SCOPE EVALUATION**

### **DESCRIPTION OF THE SOLANO MSA 46700 ASSESSMENT AREA**

The Solano AA consists of 44 of Solano County's 80 census tracts. 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 side of the San Francisco Bay and have dense banking competition oriented to the Bay Area.

#### **Demographic Profile**

##### **Solano MSA 46700 Assessment Area**

The Solano AA consists of 44 census tracts: 12 moderate-income census tracts, 22 middle-income census tracts, nine upper-income census tracts, and one N/A census tract. The assessment area does not contain any low-income census tracts.

Solano County's key central position along the Interstate 80 Corridor between the Bay Area and Sacramento continues to be the driving growth factor, aided by a comparably lower cost of raw land.

Solano County continues to experience large scale residential subdivision development as well as a build-up of light industrial and commercial space that has accelerated over the past few years. In addition to construction, manufacturing and retail trade, the Solano County economy includes agribusiness and military operations. Travis Air Force base near the community of Fairfield continues to be the county's largest employer.

Per the 2000 census, total households stood at 79,454 units. AA households increased by 11 percent between the 2000 census and 2005, putting the current household count at nearly 89,000 units. Households are projected to grow by 10,600 units over the next five years. New residential development encompasses almost the entire I-80 Corridor with development most concentrated in Fairfield and Vacaville.

Per the 2000 census, the AA labor force stands at 118,199 persons. Unemployment is moderate at 5.32 percent compared to 6.95 for the state. Employment is projected to grow by 13,000 persons over the next five years.

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE SOLANO MSA 46700 ASSESSMENT AREA**

The Solano AA contains five of the bank's 11 full-service branches (45.5 percent), none of the two limited-service branches, and one of five LPOs (20.0 percent). The Solano AA contains nine of 15 ATMs (60.0 percent). As of June 30, 2004, the bank's total AA deposits equaled \$209,620,000, or 40.3 percent of the bank's total deposits within the CAA. During calendar-year 2004, the Solano AA accounted for 31.3 percent by number, and 25.5 percent by dollar volume, of FNBD's total in-

assessment-area small business lending. The AA accounted for 34.1 percent by number, and 33.3 percent by dollar volume, of the bank's total in-assessment-area HMDA lending.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE SOLANO MSA 46700 ASSESSMENT AREA**

### **LENDING TEST**

FNBD's overall lending performance within the Solano AA was excellent and generally mirrored, and in some cases exceeded, performance for the CAA and the Sacramento AA.

Overall lending activity demonstrated good responsiveness to community credit needs and reasonably reflects this AA's proportionate geographic, demographic, and operations profiles. During the evaluation period, 162 of 518 small business loans (31.3 percent) and 59 of 114 HMDA loans (34.1 percent) were originated within this AA.

Borrower profile performance was excellent. The bank's distribution of small business loans to businesses with GARs of less than or equal to \$1 million exceeded the year-2003 aggregate lending level to a greater degree than that for the CAA. For HMDA loans, the bank lent among all income categories of borrowers, with penetration among low-income borrowers slightly above the aggregate level and penetration among moderate-income borrowers below the aggregate level.

Geographic distribution performance was excellent for both small business loans and HMDA loans. For small business loans, penetration among moderate-income tracts exceeded the year-2003 aggregate level to a degree just slightly below that for the CAA. For HMDA loans, penetration among moderate-income tracts exceeded the aggregate level to a degree greater than that for the CAA. The Solano AA does not contain any low-income census tracts.

The bank was a leader in making community development loans within the Solano AA. As shown in Table 6, four of 13 community development loans (30.8 percent) totaling \$8,426,000 of the bank-wide dollar total (35.9 percent) directly benefited this AA. Two of the 13 community development loans, totaling \$1,000,000, benefited both the Solano AA and the Sacramento AA.

The bank made good use of flexible lending programs to serve the credit needs of this AA. The bank originated 70 loans totaling \$21,183,579. These totals represent 36.5 percent by count, and 25.6 percent by dollar volume, of all flexible program loans originated by the bank within the CAA.

The bank exhibited an excellent record of serving the credit needs of the most economically disadvantaged individuals and geographies within the Solano AA. The bank's performance mirrored, and in some cases exceeded, performance for the CAA and the Sacramento AA.

### **INVESTMENT TEST**

FNBD did not originate any qualified equity or bond investments that solely benefited the Solano AA during the current evaluation period. However, of the 10 existing investments, four investments with an outstanding balance as of 12/31/04 of \$1,742,648 solely benefited this AA. Three investments with an outstanding balance of \$180,000 benefited both the Solano AA and the Sacramento AA.

As detailed in Table 7, the Solano AA benefited from 79 qualified grants and donations totaling \$457,474.75, representing 45.7 percent and 51.7 percent, respectively, of the bank's total community development grants and donations.

### **SERVICE TEST**

Retail delivery systems are readily accessible to all portions of the Solano AA.

The bank maintains five of its 11 branches (45.5 percent), one of five LPOs (20.0 percent), and nine of 15 ATMs (60.0 percent), one of two Investment and Brokerage Services Department locations, one of two SBA Loan Department locations, and the administration/operations center within the Solano AA. Facilities are reasonably distributed throughout the AA, with the main branch in Dixon, along with its ATM and Investment and Brokerage office, located within a moderate-income census tract.

All products, services, and retail and alternative delivery systems offered by the bank are readily accessible throughout the Solano AA.

The bank did not open or close any branches, LPOs, or ATMs in this AA during the evaluation period.

Services and business hours are similar to those offered throughout the CAA.

The bank transacted a relatively high level of community development services within the Solano AA. Please refer to the CAA Community Development Services section beginning on page 24 of this evaluation for details.

## APPENDIX A

### SCOPE OF EXAMINATION

<b>First Northern Bank of Dixon</b>
<b>SCOPE OF EXAMINATION:</b> Large bank, full-scope evaluation of the Combined Assessment Area. Full-scope evaluation of the Sacramento MSA 40900 Assessment Area. Limited-scope evaluation of the Solano MSA 46700 Assessment Area.
<b>TIME PERIOD REVIEWED:</b> For the Investment Test, the Service Test, lending activity, serving the credit needs of the most economically disadvantaged, community development lending, and innovative and/or flexible lending programs, the period reviewed was from the date of the previous CRA evaluation (July 9, 2002) until the current evaluation date. For all other sections of the Lending Test (assessment area concentration, geographic distribution, and borrower profile), the period reviewed was all of calendar-year 2004.
<b>PRODUCTS REVIEWED:</b> CRA-reportable small business loans, HMDA-reportable residential mortgage loans, community development loans.

LIST OF AFFILIATES AND PRODUCTS REVIEWED		
AFFILIATE(S):	AFFILIATE RELATIONSHIP:	PRODUCTS REVIEWED:
First Northern Community Bancorp	Parent Holding Company	N/A

LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA:	TYPE OF EXAMINATION:	BRANCHES VISITED:	OTHER INFORMATION:
Combined Assessment Area	Full-scope	0	None
Sacramento MSA 40900 Assessment Area	Full-scope	0	None
Solano MSA 46700 Assessment Area	Limited-scope	0	None

## APPENDIX B

STATE OR MULTISTATE MSA NAME:	SUMMARY OF STATE AND MULTISTATE MSA RATINGS			
	LENDING	INVESTMENT	SERVICE	OVERALL
	TEST RATING:	TEST RATING:	TEST RATING:	STATE RATING:
Combined Assessment Area - California	Outstanding	High Satisfactory	Outstanding	Outstanding

## APPENDIX C - GENERAL DEFINITIONS

### GEOGRAPHY TERMS

**Block:** Small areas bounded on all sides by visible features such as streets, roads, streams or rail road tracks, and invisible features like city or town boundaries or property lines. Blocks are subdivisions of census tracts or block numbering areas (BNA), and are assigned a unique three-digit number.

**Block Group:** Clusters of blocks within a census tract or BNA, having a four-digit number and a three-digit suffix. The four-digit number corresponds to the same number given to the census tract or BNA in which it is located.

**Block Numbering Areas (BNAs):** Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.

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

**Metropolitan Area (MA):** One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

**Metropolitan Statistical Area (MSA):** One or more metropolitan areas that have economic and social ties.

**Primary Metropolitan Statistical Area (PMSA):** A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area. If an area qualifies as an MA and has more than one million persons, PMSAs may be defined within it.

**Consolidated Metropolitan Statistical Area (CMSA):** The larger area of which PMSAs are component parts.

**Non-Metropolitan Area:** All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural

classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

**Rural Area:** Territories, populations and housing units that are not classified as urban.

### **HOUSING TERMS**

**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).

**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.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**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.

### **INCOME TERMS**

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

**Family Income:** Includes the income of all members of a family that are age 15 and older.

**Household Income:** Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

**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.

**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 and less than 80 percent in the case of a geography.

**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 and less than 120 percent in the case of a geography.

**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.

**HUD Adjusted Income Data:** The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

## **OTHER TERMS**

**Home Mortgage Disclosure Loan Application Register (HMDA LAR):** The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

**Small Business Loan:** A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** 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, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

## APPENDIX D - INVESTMENT DEFINITIONS

**Community Development Corporation (CDC):** A CDC allows banks and holding companies to make equity type of investments in community development projects. The equity investments are subject to limits specified by the bank's regulator. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community as well as to the financial and marketing needs of the bank. A CDC may purchase, own, rehabilitate, construct, manage and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization. Any real estate ownership should generally be temporary, with ownership reverting to members or organizations in the community.

**Community Development Financial Institutions (CDFIs):** CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. They procure loans and investments that conventional financial institutions are unable to invest in, and they link financing to other developmental activities. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. CDFIs share a common mission and can be chartered as a credit union or bank. CDFIs can also be unregulated nonprofit institutions that gather private capital from a range of social investors for community development lending or investing. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, microenterprise funds, and community development venture capital funds. A certified CDFI must meet eligibility requirements, which include: having a primary mission of promoting community development; serving an investment area or target population; providing development services; maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means; and not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

**Low Income Housing Tax Credits:** The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended, which is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department, through the Internal Revenue Service, distributes low-income housing tax credits to housing credit agencies. The housing agencies allocate tax credits on a competitive basis. Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits or sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains in place throughout the compliance period, usually 30 years.

**Qualified Investments:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development to support the following endeavors: 1) affordable housing; 2) community services targeting low- and moderate-income individuals; 3) activities that promote economic development by financing small farms and small businesses; and 4) activities that revitalize or stabilize low- and moderate-income geographies.

## **APPENDIX E - STANDARD PE LANGUAGE**

### **LENDING TEST**

#### **Scope of Test**

The lending test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by considering an institution's home mortgage, small business, small farm, and community development lending. The institution's lending performance is evaluated pursuant to the following criteria: 1) the volume of lending activity; 2) the proportion of lending within the assessment area(s); 3) the dispersion of loans and the number and amount of loans in low-, moderate-, middle- and upper-income geographies in the assessment area(s); 4) the distribution of loans among borrowers of low-, moderate-, middle- and upper-income levels and businesses (including farms) of different sizes; 5) the distribution of small business and small farm loans by loan amount at origination; 6) the volume of community development lending; and 7) the use of innovative or flexible lending practices. Performance under the lending test is weighted more heavily than the investment and Service Tests when arriving at an overall rating.

#### **Community Development Lending:**

##### **Performance Criteria**

The institution's community development lending activities are evaluated pursuant to the following criteria: 1) the extent to which community development lending opportunities have been made available to the institution; 2) the responsiveness of the institution's community development lending; and 3) the extent of leadership the institution has demonstrated in community development lending.

#### **Innovative and Flexible Lending Practices:**

##### **Performance Criteria**

The institution's innovative and flexible lending practices are evaluated pursuant to the following criteria: 1) the degree to which the loans serve low- and moderate-income creditworthy borrowers in new ways or serve groups of creditworthy borrowers not previously served by the institution; and 2) the success of each product serving low- and moderate-income borrowers, including the number and dollar volume of loans originated during the review period.

### **INVESTMENT TEST**

#### **Scope of Test**

The investment test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through its use of qualified investments that benefit the assessment area(s) or a broader statewide or regional area that includes the institution's assessment area(s). Activities considered under the lending or Service Test may not be considered under the investment test.

The institution's investment performance is evaluated pursuant to the following criteria: 1) the dollar amount of qualified investments; 2) the innovativeness or complexity of qualified investments; 3) the responsiveness of qualified investments to credit and community development needs; and 4) the degree to which the qualified investments are not routinely provided by private investors.

## **SERVICE TEST**

### **Scope of Test**

The Service Test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of its community development services. The institution's retail banking services are evaluated pursuant to the following criteria: 1) the distribution of the institution's branches among geographies of different income levels; 2) the record of opening and closing branches, particularly branches located in low- and moderate-income geographies or that primarily serve low- or moderate-income individuals; 3) the availability and effectiveness of alternate systems for delivering retail banking services; and 4) the range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

In addition, the institution's community development services are evaluated pursuant to the following criteria: 1) the extent of community development services offered and used; 2) the innovativeness of community development services, including whether they serve low- and moderate-income customers in new ways or serve groups of customers not previously served; 3) the degree to which they serve low- and moderate-income areas or individuals; and 4) their responsiveness to available opportunities for community development services.