

# **PUBLIC DISCLOSURE**

September 30, 1996

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**BARNES BANKING COMPANY**

**12-49-0130-0000**

**333 South Main Street  
Kaysville, Utah 84037**

**FEDERAL RESERVE BANK OF SAN FRANCISCO  
101 MARKET STREET  
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.**



## 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 **Barnes Banking Company** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of September 30, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

### **INSTITUTION'S CRA RATING:**

This institution's overall CRA (Community Reinvestment Act) performance is rated **satisfactory** based upon a review of its provision of credit to its community. Evidence was found during the examination that management had taken an affirmative role in identifying and meeting the credit needs of the moderate, middle, and upper-income neighborhoods in its community, in a manner consistent with its resources and capabilities.

The following table indicates the performance level of Barnes Banking Company with respect to each of the five performance criteria.

<b>SMALL INSTITUTION ASSESSMENT CRITERIA</b>	<b><u>Barnes Banking Company</u></b>		
	<b>PERFORMANCE LEVELS</b>		
	<b>Exceeds Standards for Satisfactory Performance</b>	<b>Meets Standards for Satisfactory Performance</b>	<b>Does not meet Standards for Satisfactory Performance</b>
Loan-to-Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received during the period of review.		

## **DESCRIPTION OF INSTITUTION:**

Barnes Banking Company, an unaffiliated financial institution, operates three full-service branches in Davis County; the head office in Kaysville, which has been in operation for 109 years, and branches in Bountiful and Layton. The bank has benefitted from a strong loan demand as total assets increased by nearly 20% from \$166 million as of March 31, 1995 to \$199 million as of June 30, 1996. A review of the bank's loan portfolio as of June 30, 1996 reveals the following loan distribution:

1-4 family residential	29%
Construction Loans	25%
Consumer -Purpose Loans	7%
Commercial and Industrial loans	35%
Agricultural production loans	1%

The distribution shows that Barnes Banking Company is primarily a business-purpose lender as commercial and industrial loans represent 35% of the bank's loan portfolio. The bank is prepared to extend government guaranteed business loans, including Small Business Administration loans, and short and long-term unsecured business loans. Another area of concentration is construction lending which consists primarily of loans for the construction of single family residences. Other products offered by the bank include consumer installment loans, home equity, home improvement loans, agricultural loans, and check guarantee lines of credit. The bank's ability to meet its responsibilities under the Community Reinvestment Act was not affected by any external constraints during the period of review. The bank's CRA performance was rated satisfactory at the previous examination conducted as of July 17, 1995.

## **DESCRIPTION OF ASSESSMENT AREA (DAVIS COUNTY):**

The bank's assessment area consists of the entire Davis County, which has a land mass of 268 square miles and 36 census tracts. The total population of the assessment area is 187,941 according to the 1990 census. It is the second fastest growing metropolitan area in the state, and the population is projected to double by 2020 according the Utah Office of Planning and Budget.

There are 45,621 families in the assessment area. Upper income families represent 42% of the assessment area families, followed by middle-income at 28%, moderate at 18%, and low at 12%. Family median income is \$45,500.

Type of Tracts	Number of Tracts	Population in Tracts	Families Income Range
Low - income	1	23	\$ 0 to \$22,749
Moderate-income	3	15,080	\$22,750 to \$36,399
Middle-income	18	106,149	\$36,400 to \$54,599
Upper-income	14	66,689	\$54,600 and Greater
Total	36	187,941	

According to the U. S. Bureau's County Business Patterns Report in 1993, there were 2,962 business establishments employing a total of 41,668 people. The following table illustrates the distribution of these businesses by industry type.

Type of Industry	Number of Employees	Number of Establishments
Mining	32	6
Construction	3,754	467
Manufacturing	6,890	456
Transportation and Public Utilities	1,998	121
Wholesale Trade	2,789	202
Retail Trade	12,793	697
Finance Insurance and Real Estate	1,939	271
Administrative Auxillary	1,697	31
Service and other	9,776	968
Total County	41,668	2,962

A discussion with a community representative was conducted by examiners. The representative indicated that the assessment area is experiencing rapid growth resulting in considerable demand for loans to small businesses. In addition, building permit information from the U. S. Bureau of Census for the MSA 7160 as a whole (Davis, Salt lake, and Weber counties) in 1995 showed a 22% increase in building permits issued for single and multi-family housing units over the number of permits issued in 1994. The 10,620 building permits issued 1995 represents a 125% increase over the 4,714 issued in 1991. This upward trend in the number of building permits

issued indicates a demand for loans to finance residential construction.

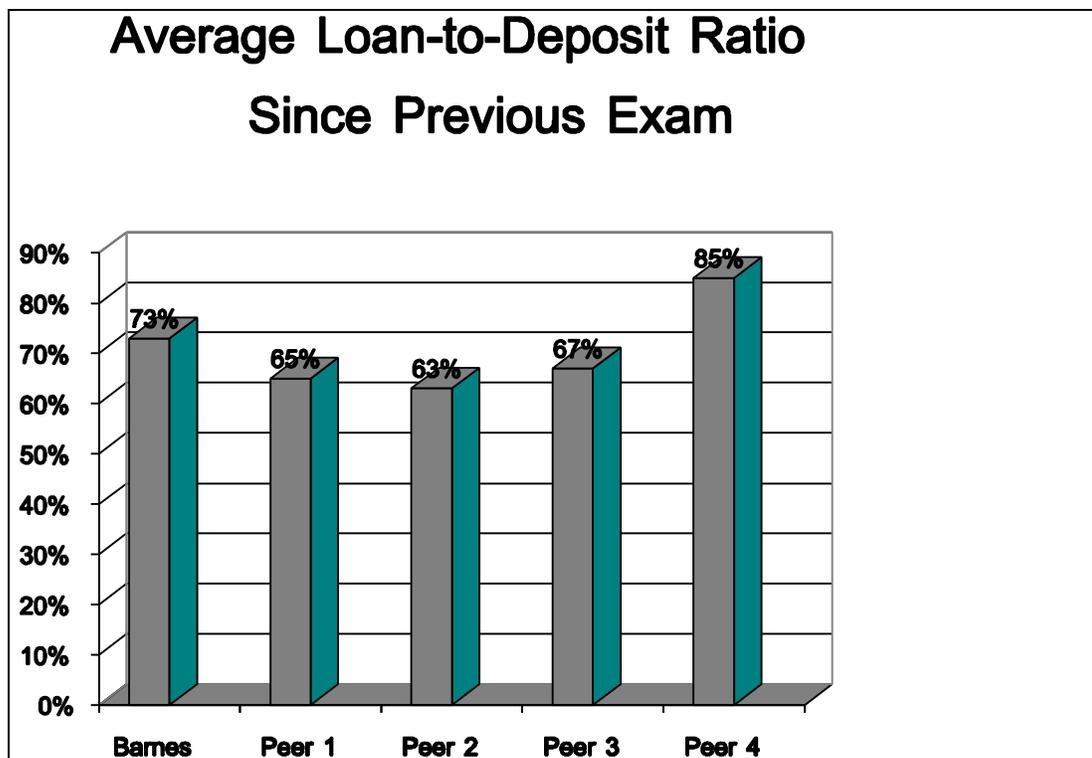
## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

### **LOAN TO DEPOSIT RATIO:**

For the review period, the bank's average loan-to-deposit ratio was 73%. The chart below illustrates the quarterly ratios. With the exception of the fourth quarter of 1995 when loans outstanding remained stagnant, both loans and deposits showed an upward trend over the four quarter period.

Quarter Ending	Loan-to-Deposit Ratio
September 1995	72%
December 1995	70%
March 1996	71%
June 1996	76%
Average Loan-to-Deposit Ratio	73%

The bank's average loan-to-deposit ratio was compared to those of four similarly situated bank's located in Davis. The average loan-to-deposit ratios of the four banks over the same four quarter period ranged from 63% to 85%.



These comparisons revealed the reasonableness of Barnes Banking Company's average loan-to-deposit ratio. Moreover, between March 31, 1995 and March 31, 1996 total deposits increased by 15% while loans grew by a higher 20%, further indicating the reasonableness of the loan-to-deposit ratio, and the bank's actively endeavoring to meet the credit needs of the assessment area.

**LENDING IN ASSESSMENT AREA:**

Examiners performed a geographic analysis of credit extensions using statistical samples of small business loans and refinance loans extended since the previous examination. A total of 197 business loans and 60 refinancing loans were sampled. Based on the analysis of the samples, the examiners formed conclusions about the bank's total loan portfolio in regards to the extent of lending within its assessment area. The analysis shows that for small business loans, by dollar amount, 68% (\$8,810,431) were extended inside, versus 32% (\$4,144,192) outside the assessment area. For refinance loans, 92% (\$7,852,000) were extended inside versus 8% (\$729,000) outside. The following chart shows this distribution.

	BUSINESS LOANS			REFINANCE LOANS		
	IN	OUT	TOTAL	IN	OUT	TOTAL
<b>NUMBER OF LOANS</b>	148	49	197	52	8	60
<b>PERCENT</b>	75%	25%		87%	13%	

<b>DOLLAR AMOUNT OF LOANS (000)</b>	\$8,810	\$4,144	\$12,954	\$7,852	\$729	8,581
<b>PERCENT</b>	68%	32%		92%	8%	

The analysis indicates that the extent of lending inside the assessment area, both in terms of number of loans and dollar amount is more than reasonable.

**LENDING BY BORROWER INCOME AND BY BUSINESS REVENUE:**

Refinance Loans

Using a statistical sample of 39 loans, examiners collected information regarding applicant income and sorted the results by low, moderate, middle and upper-income categories. The distribution of loans by borrower income is shown in the table below by both number and dollar amount.

**Distribution of Refinance Loans by Borrower Income Level**

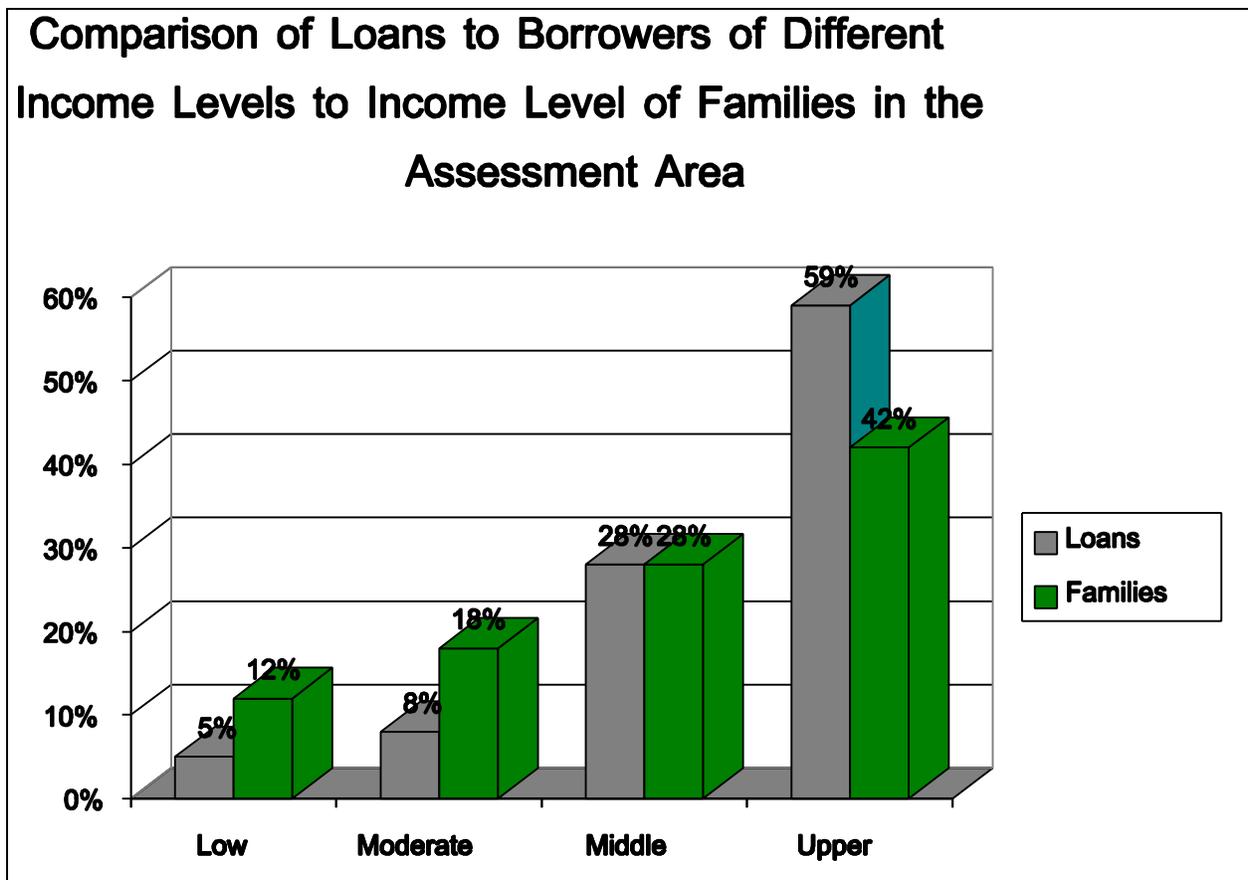
	Low Income	Moderate Income	Middle Income	Upper Income
Total Number of Loans	2	3	11	23
Percentage of Total Loans	5%	8%	28%	59%
Total Amount of Loans	\$95,000	\$188,000	\$1,096,000	\$3,800,000
Percentage of Total Loans	2%	4%	21%	73%

Extensions of credit to individuals of different income levels were compared to the demographic make-up of the assessment area. Upper-income families comprise 42% of the 53,643 households in the assessment area, followed by middle-income households at 28%, moderate-income households at 18% and low-income households at 12%. The following graph compares loan extensions to assessment area demographics.

As the graph shows, the majority (87%) of refinance loans were to middle and upper-income borrowers. According to information provided by the Chamber of Commerce, low and moderate-income people are less likely to own homes due to the scarcity of affordable housing. In order to qualify for the average priced home (estimated to be \$155,000), a family's income would need to be approximately \$52,000 or 114 percent of the MSA median income. Therefore, considering differences in homeownership rates among individuals of different income levels, the distribution of loans by borrower income is reasonable.

Small Business Loans

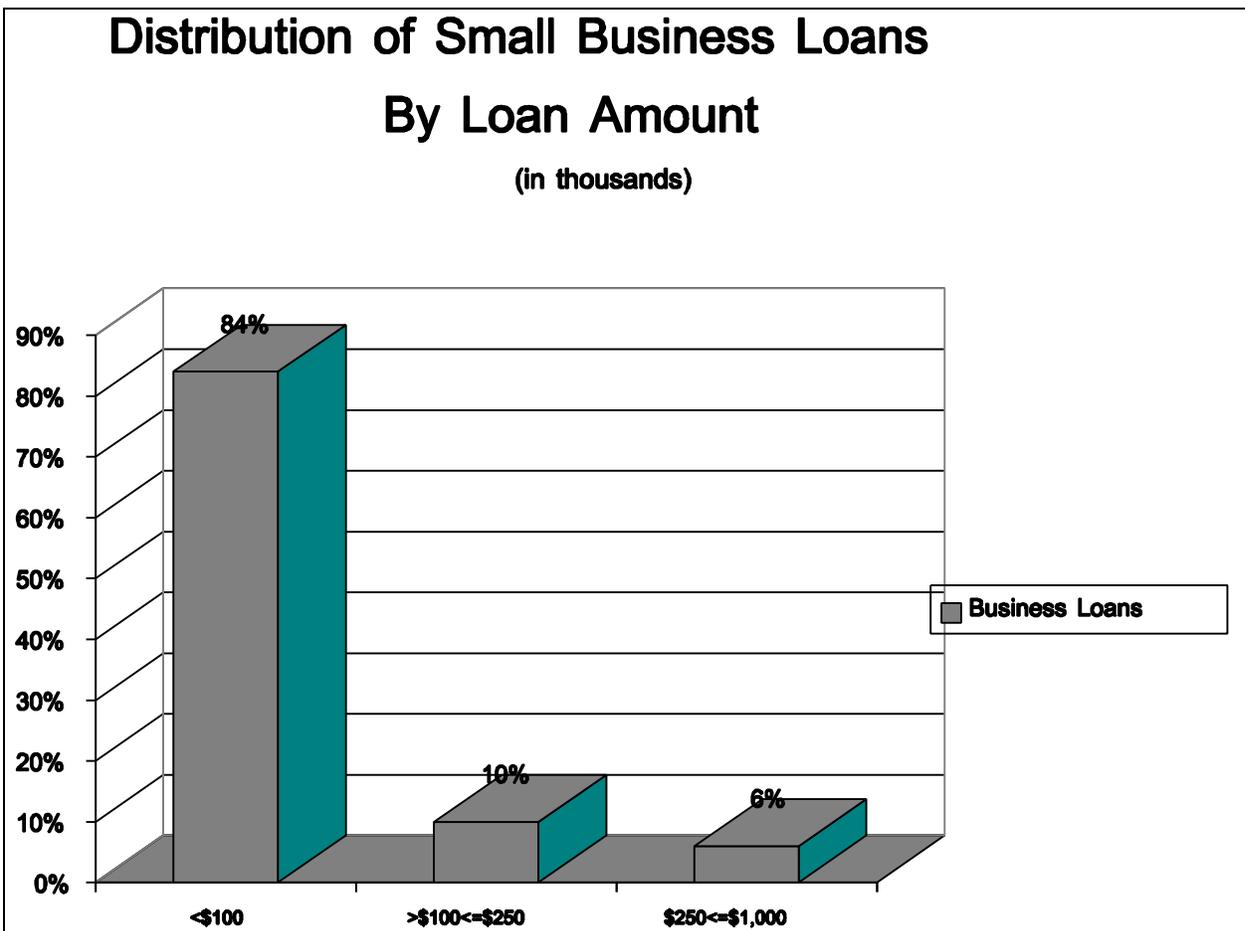
Examiners analyzed a sample of 61 business loans. The analysis focused on three areas: (1) lending to businesses of different sizes, (2) lending based on loan amount, and (3) lending to low and moderate income borrowers. The bank has an excellent record of lending to small businesses, (defined as businesses with annual revenues less than \$1 million). Of the 61 loans reviewed, information about business revenue was available in 53 loan files. In all cases the revenue of the business was less than \$1 million. Similarly, as depicted by the following graph, the bank's record of extending loans in amounts less than \$1 million is more than reasonable.



For eight business loans, the bank based its decision on borrower income rather than business revenue. Of the eight loans, two were to low-income borrowers and three were to moderate-income borrowers.

Information regarding the number of small businesses in the assessment area was not available, however data from the U. S. census pertaining to county business patterns provides information regarding the number of employees per business establishment in the assessment area. The data indicates that 94% of the businesses in the assessment area employ between one and forty-nine people. This information indicates that a substantial number of businesses are small. Thus, the bank's record of lending to small businesses demonstrates that it is meeting a significant credit need in the community.

Overall, the bank's record of lending based on borrower income and business revenue is reasonable. While the distribution of refinancing loans shows a disproportionately high percentage of loans to middle and upper income borrowers, this is mitigated by the bank's performance with regard to business lending. Examiners found that, 100% of business loans were to small businesses and 100% of business loans were for amounts less than \$1 million.



## **GEOGRAPHIC DISTRIBUTION OF LOANS:**

Examiners also reviewed the geographic distribution of loans among geographies of different income levels. The review includes consideration of the number of geographies and the population distribution among geographies. Middle income census tracts account for 50% of the census tracts in the assessment area, followed by upper income at 39%, moderate-income at 8% and low-income at 3%. The population follows a similar distribution with middle and upper-income tracts representing 56% and 35%, respectively, of the 187,000 population<sup>1</sup>.

### **Refinance Loans**

A total of 39 refinance loans were analyzed to determine the extent of lending in census tracts of different income levels. The results are shown in the following table and graph.

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<sup>1</sup>Refer to table on page 3.

Refinance Loans

	Low Income Tract	Moderate Income Tract	Middle Income Tract	Upper Income Tract	TOTAL
Total Number of Loans	0	1	25	26	52
Percentage of Total Loans	0%	2%	48%	50%	
Total Amount of Loans	\$0	\$60,000	\$2,807,000	\$4,985,000	\$7,852,000
Percentage of Total Loans	0%	1%	36%	63%	<div style="border: 1px solid black; padding: 5px; display: inline-block;">                     Tracts Loans                 </div>

There were no refinance loans extended in the low-income tract. This is not a concern because only 23 individuals reside in the only low-income census tract in the assessment area. Middle- and upper-income census tracts comprise 92% of the assessment area and received 98% of the total number of loans. The low level of lending in moderate-income areas is of some concern since there was only one loan extended in the three moderate-income tracts which comprise 8% of the population and 9% of the housing units of the assessment area.

Small Business Loans

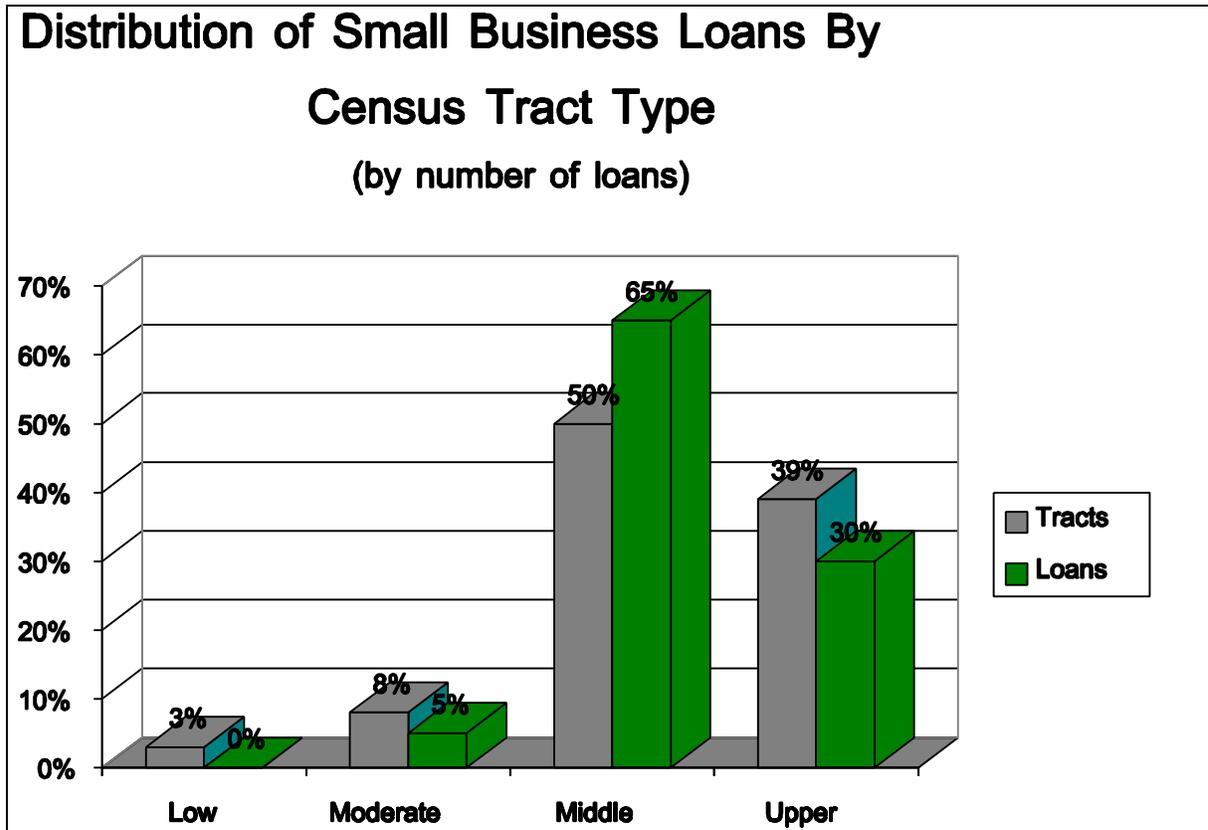
A total of 148 small business loans were similarly analyzed. The results of the analysis is represented below.

**Small Business Loans**

	Low Income	Moderate Income	Middle Income	Upper Income	TOTAL
Total Number of Loans	0	8	96	44	148
Percentage of Total Loans	0%	5%	65%	30%	

Total Amount of Loans	\$0	\$844,346	\$5,871,476	\$2,094,609	\$8,810,431
Percentage of Total Loans	0%	10%	67%	25%	

Again, the majority of loans were extended in middle and upper-income tracts: 95% based on the number of loans; and 91% based on dollar amount. The bank was also successful in penetrating moderate-income areas. In the sample, 8 loans totalling \$844,346 were extended in three moderate-income census tracts.



In conclusion, the low level of refinance loans in moderate-income areas is cause for concern. The bank does offer both owner-occupied and non-owner occupied refinance loan products. Therefore, homeownership rates would not have impacted on this distribution. Nevertheless, the number and percentage of small business loans extended in moderate-income area does compensate for the bank's record with respect to refinance loans. Overall, the geographic distribution of loans is reasonable.

**RESPONSE TO COMPLAINTS:**

Management indicated that no complaints regarding the bank's performance had been received since the previous examination.

**COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS:**

There were no substantive violations of Regulation B (Equal Credit Opportunity Act) or FHA (the Fair Housing Act) noted at this examination. The scope of the examination included interviews with bank personnel, a review of the bank's policies and procedures, internal controls, forms, and advertisements, and a sample of outstanding loans, as well as declined loan applications. Management has allocated sufficient time and resources to ensure compliance with antidiscrimination laws and regulations.