

PUBLIC DISCLOSURE

March 4, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Tehama County Bank
12-06-1210-0000**

**237 South Main Street
Red Bluff, California 96080**

**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 **Tehama County Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of March 4, 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 is rated satisfactory.

Tehama County Bank maintains an exceptionally high loan-to-deposit ratio of 77%. In addition, a large percentage of the bank's lending is made within the bank's assessment area. However, these two factors are tempered by the bank's average lending performance with respect to borrowers of different incomes and to businesses of different sizes as well as its average performance in the geographic distribution of loans within its assessment area. There was no evidence of illegal discrimination or discouragement identified at this examination and there have been no complaints against the bank since the previous examination.

The following table indicates the performance level of Tehama County Bank with respect to each of the five performance criteria.

| SMALL INSTITUTION ASSESSMENT CRITERIA | <u>(NAME OF FINANCIAL INSTITUTION)</u> | | |
|--|--|--|--|
| | PERFORMANCE LEVELS | | |
| | Exceeds Standards for Satisfactory Performance | Meets Standards for Satisfactory Performance | Does not meet Standards for Satisfactory Performance |
| 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 | since the prior examination. |
| | | | |

DESCRIPTION OF INSTITUTION:

Tehama County Bank, with total assets of \$127,764,000 as of December 31, 1995, operates with four facilities. The main office is in Red Bluff, and a branch, as well as a Dealer Center, are in Los Molinos, all of which are located in Tehama County. The bank also has a branch in Chico, located in Butte County. All three branches are full service offices offering loan products such as real estate, installment, commercial, agricultural and credit card loans. Additional services such as ATM, drive-up and messenger service vary by individual branch.

the bank's primary business focus is to serve all segments of the market place and provide a variety of credit products. The bank considers the credit needs of the community to be mortgage and construction loans, financing for new and existing small business and financing for small farms and agricultural as well as consumer loans. The bank's loan portfolio mix, composed of 7% Construction and Development (includes both commercial and consumer), 33% 1-4 Family Residential, 2% Home Equity Loans, 2% Farmland, 9% Non-Farm Non-Residential, 1% Agricultural Loans, 12% Commercial and Industrial Loans and 34% Loans to Individuals, is supportive of the bank's intentions to provide a variety of loan products.

Tehama County Bank is effective in helping to meet community credit needs in a manner consistent with its size and resources. Its loan-to-deposit ratio is consistently in the high 70% range, indicating that deposited funds are reinvested in the community. Other than the bank's legal lending limit, there are no apparent factors which would impede the bank's ability to help meet local credit needs.

DESCRIPTION OF *Tehama, Butte and Shasta County:*

Tehama County Bank has identified its assessment area as all of Tehama, Butte and Shasta counties. Tehama county currently has a population of 54,700 and Red Bluff, as the county seat, has an approximate population of 13,000. Tehama is a relatively low-income area with a median family income of \$25,946; 24.5% of the families are low-income, 21.4% are moderate-income, 21.7% are middle-income and 32.4% are upper-income. According to information obtained from a community contact, who is a member of the local development corporation, it is believed that the area has a high percentage of low-income residents due to the relatively low cost of living. The county's affordability has attracted many retired individuals living on a fixed income as well as a large number of individuals receiving public assistance. Based on 1990 census data, 16.8% of the population is 65 years of age or older, a 48.77% increase from 1980. Also, there has been a 48.70% increase in public assistance recipients between 1991 and 1993.

The community contact also noted that unemployment has been a problem in the area because of the heavy dependence on the lumber and agricultural industry. Since the logging industry has been displaced and the mills have closed, the unemployment rate in Tehama County has been relatively high at 10.3%. Furthermore, environmental concerns

and government regulation have had an adverse impact on the agricultural industry, also contributing to the high unemployment rate. As a result, the primary focus of the local development corporation has been job generation for the community. The organization has been successful in recruiting some of Tehama County's largest employers, such as Wal-Mart's Distribution Center and Sierra Pacific Industries. The economic recovery of the county is contingent on the recruitment and retention of business as well as the availability of business financing. It was communicated that the most eminent credit need are small business loans ranging from \$5,000 to \$50,000 and start up financing. The contention is that many financial institutions have very strict underwriting guidelines and are unwilling to accommodate low-dollar loans. Small community banks, such as Tehama County Bank, were commended for their efforts to assist the small business borrower by providing both flexible loan programs and low-dollar loans. Tehama County Bank was also recognized for its participation in the local development corporation and its financial contribution supporting the efforts of the organization.

Butte County has demographics similar to that of Tehama County. The median family income is \$28,314; 19.9% of the population is low-income, 18.6% is moderate income, 22.2% is middle-income and the remaining 39.3% is high income. Chico, which is located in Butte County, is larger in size than any other city in Tehama County. It has a rapidly growing population which has resulted in tremendous growth in retail sales and provided local government with higher sales tax income. Discussions with a member of the Chico Economic Planning Corporation (CEPCO) revealed that growth in the retail industry is expected to continue because of the increased visibility of small communities such as Chico. The retail industry is the most prevalent with a 24% concentration, followed by Government and Education at 19% and Health and Recreation at 14%. The California State University, Chico, Butte Community College, Enloe Hospital and Dole Nut Company are some of the major employers in Chico. However, according to the community contact, there has been a decreasing trend in the enrollment at Chico State University which has adversely impacted the local economy of Chico.

CEPCO shares the same objectives as the Local Development Corporation of Tehama County, which is to improve the local business climate and provide the community with private sector opportunities for employment. The two organizations also concur that the primary credit need of the community are small business loans. The CEPCO representative stated that Chico is in need of small business and start up financing ranging \$25,000 to \$50,000. The perception is that banks' standards are too restrictive, thereby, precluding small businesses from receiving necessary funding. Alternatively, Tehama County Bank was recognized as having more flexible underwriting criteria and being much more accommodating to the small business borrower. The bank's management was also commended for their efforts to attend to their customers as well as their general involvement in the community.

The Housing Office of Chico expressed similar support of the bank. Tehama County Bank was acknowledged for financing the construction portion of a 56 unit elderly housing project. The bank, working in conjunction with the Housing Authority of Butte County, developed the loan proposal to facilitate the construction of the senior apartment complex.

The city housing officer also made mention of the bank's interest in the Mortgage Subsidy Program (MSP) sponsored by The Chico Redevelopment Agency. The program is designed to help first-time homebuyers and is targeted to low- and moderate-income individuals. According to the city housing officer, approximately 1,000 households in Chico experience a housing burden, having to pay more than 50% of their income towards their housing costs. This demonstrates a need for low-income housing which may be met by banks through their participation in programs such as the (MSP).

Shasta County maintains the highest income level of all three counties within the bank's assessment area with a family median income level of \$30,333. Low income families constitute 21.7% of the population, 17.7% are moderate income, 20.9% are middle income and 39.7% are upper income families. The total population of Shasta County has increased by 27.18%, from 115,613 in 1980 to 147,036 in 1990. The industry most dominant in the county is service and retail followed by government.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN-TO-DEPOSIT RATIO

The five major performance criteria considered in the CRA evaluation are the bank's loan-to-deposit ratio, lending in the assessment area, lending to borrowers of different incomes and to businesses of different sizes, the geographic distribution of loans and the response to complaints. In analyzing the bank's loan-to-deposit ratio, a quarterly average since the previous examination was calculated. This ratio was compared to similarly situated banks within and outside the bank's assessment area. More emphasis was placed on banks located within the assessment area since the same economic factors and lending opportunities apply to those institutions. The quarterly loan-to-deposit ratio of 77% compared favorably to the peer group and in most cases, exceeded the standard.

The bank's lending pattern within the assessment area was evaluated by sampling four different loan products; dealer, direct instalment, HMDA and small business loans. These specific products were selected because they represent the bulk of the bank's loan portfolio. A geographical analysis was performed using these samples to identify the percentage of loans made inside and outside the assessment area. For three of the four products sampled over 95% of the loans were made within the assessment area. The Dealer loans had a lower penetration of 84%. The high percentage is indicative of the bank's commitment to serve its community.

LENDING IN ASSESSMENT AREA

In evaluating the bank's lending to borrowers of different incomes, 1990 census data was used to calculate the percentage of low-, moderate-, middle-, and upper-income families within the bank's entire assessment area. Once the demographics of the area were identified, a comparison was made of the bank's distribution of loans to borrowers of various income levels relative to the income groups within the assessment area. Using the same loan products as in the previous analysis, the bank's

lending to borrowers of different income levels was relatively comparable to the percentage of low-, moderate-, middle- and upper-income individuals present within the assessment area. Only one loan product, HMDA (Home purchase, refinance or home improvement) loans, demonstrated a poor lending performance to low- and moderate-income individuals.

The percentage of low-income families throughout the bank's assessment area was calculated at 21.2% and moderate-income families at 18.7%. Based on the loan sampling (consisting of 47 loans), only 4% of the bank's HMDA loans were made to low-income families and only 10% were made to moderate income families. However, the bank's involvement and initiative in providing low-income housing, such as the 56-unit elderly housing project endorsed by the Housing Authority of Butte County, compensates for the low percentage of loans made to low- and moderate-income individuals. In addition, the bank participates in the following governmentally-guaranteed loan programs: the Farmers Home Administration (FmHA), the Federal Housing Administration (FHA) and the Veterans Administration. Two of the programs sponsored by FmHA's are specifically designed to help low- to moderate-income families purchase and/or repair a dwelling. Although the bank has not yet participated in the Mortgage Subsidy Program offered by The Chico Redevelopment Agency, they have initiated contact with the Chico Housing Office and expressed interest in the program.

LENDING TO BORROWERS

The bank's lending to businesses of various sizes is determined by the gross revenues of the business. A review of 78 commercial loans revealed that 81% of the loans were made to small businesses with gross revenues of less than \$1MM and 55% were in the amount of \$50M or less. Considering the need for small business financing, especially for low-dollar loans, as expressed by community contacts, the bank is adequately serving the business credit needs of the community.

GEOGRAPHIC DISTRIBUTION OF LOANS

The bank's geographic distribution of loans was evaluated in the same manner as the lending performance to borrowers of different incomes. The demographics of the community identifying the number of low-, moderate-, middle- and upper-income tracts were compared to the number of loans (using the same four loan products) extended within each of those tracts. The results indicated that the bank is adequately penetrating all segments of the community.

COMPLAINTS

The bank did not receive any complaints about its CRA performance; therefore, the institutions record of taking action in response to such complaints could not be evaluated.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS

The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations such as the Fair Housing Act and the Equal Credit Opportunity Act. While there were some violations of the Home Mortgage Disclosure Act, they were technical in nature and did not have a discriminatory effect. Moreover, a review of the bank's loan distribution and credit evaluation procedures indicate that no applicants are discouraged from requesting the types of credit offered by the bank. The bank has on-going fair lending training for its staff and has implemented a secondary review process for declined loans to ensure the equal treatment of all applicants. The policies, procedures and training programs developed by the bank adequately support non-discrimination in lending.