PUBLIC DISCLOSURE

June 23, 1997

COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION

Humboldt Bank
12-06-0390-0000

701 Fifth Street
Eureka, CA 95502

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.**

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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 **Humboldt Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of **June 23, 1997**. 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 needs to improve.

The institution's overall CRA (Community Reinvestment Act) performance is rated **needs to improve.** Humboldt Bank's residential real estate and consumer purpose lending is disproportionately disbursed toward middle- and upper-income borrowers and middle- and upper-income census tracts. The bank continues to lend to businesses of all sizes; however, as a percentage of the bank's total small business loans, the bank's record of lending to small businesses has decreased slightly since the previous examination. Substantive violations of the Equal Credit Opportunity Act identified at a concurrent consumer compliance examination were considered but did not substantively impact the bank's CRA rating.

DESCRIPTION OF INSTITUTION:

Humboldt Bank, a wholly-owned subsidiary of Humboldt Bancorp, maintains its headquarters in

Eureka, California. Since the previous examination, the bank has been expanding significantly. As of June 30, 1997, the bank had almost $254 million in assets, which represented an increase of almost 30% since June 30, 1996. In addition to its main office in Eureka, the bank operates branch offices in Arcata, Loleta, Fortuna, McKinleyville, Weaverville, the Weaverville Supermarket, Willow Creek, and Garberville. The Garberville Branch was acquired on May 9, 1997, and the bank published notice in local newspapers on May 19 and June 2, 1997 to establish a branch office in Ferndale. With the exception of the Weaverville Supermarket Branch, all branches are full-service lending offices offering real estate, commercial, and consumer purpose loans. Retail services such as ATMs, courier services, night depository boxes, and utility payment services vary by individual branch. Historically, Humboldt Bank has focused its lending activities on the residential real-estate and commercial loan markets in its assessment area. As a by-product of these new branches, however, the bank's business activity has shifted to include more retail lending.

According to the bank's CRA Public File, the bank offers a wide variety of real estate loans, including fixed and variable rate mortgages, reverse mortgages, manufactured housing loans, equity loans and lines of credit, lot financing and construction loans. The bank has chosen not to offer FHA financing; however, the bank does participate in FNMA's Community HomeBuyers Program and the CMCC Lending Program (County Mortgage Credit Certificates). Like FHA financing, both of these programs facilitate lending to low- and moderate-income borrowers. The bank offers both owner-occupied and non-owner occupied commercial real estate loans as well as non-real-estate-secured business purpose credit lines and loans. In addition to the bank's conventional loan programs, Humboldt Bank occasionally participates in governmental-guaranteed, insured, or subsidized loan programs such as SBA (Small Business Administration), and RECDS (USDA Rural Economic and Community Development). According to bank management, for example, from June, 1996 to May, 1997, the bank extended one Community Homebuyer Loan, two or three USDA Rural Housing Guarantee Loans and one loan under the MCC program. Consumer loans include new and used auto, boat and recreational vehicle purchase loans, overdraft lines and personal unsecured loans. In April of 1997, Humboldt Bank began offering a VISA card marketed through third parties.

Competitors within the bank's assessment area include commercial banks, savings banks, and credit unions. According to bank management, as of December 31, 1996, Humboldt Bank was the largest residential real-estate mortgage lender among local banks holding a 33.4% market share of all loan dollars originated in the year-to-date ending December 1996. The nearest bank competitor held a 15.9% market share. Considering the number of residential loans extended during 1996 rather than dollars, the bank's market share was 20%, second only to Bank of America. The bank's market share of residential lending activity remained essentially the same during the first six months of 1997.[1] According to the bank's Consolidated Report of Income and Condition, as of June 30, 1997, loans secured by 1-4 family dwellings represented only 18% of the bank's total loan portfolio. As the bank regularly sells residential mortgage loans on the secondary market, this percentage does not accurately reflect a significant amount of the bank's residential mortgage lending activity. In Figure 1, residential mortgage loans extended and sold on the secondary market are included, thus more accurately demonstrating the bank's level of residential real estate lending activity relative to the bank's other lending activity.

[1] Humboldt Bank market share data as supplied by a local title company reporting residential real-estate secured loans originated by the following local lenders: Bank of America, Harbourton, Humboldt, Coast Central, Six Rivers and U.S. Bank. For comparison purposes, as of June 30, 1997, Bank of America NT&SA had assets over $258 billion.

The bank remains one of the leading commercial lenders in the county. As of June 30, 1997, the bank's loan portfolio consisted of $58.7 million (40%) in loans secured by non-farm, nonresidential properties and $24.1 million (16%) in non-real-estate- secured commercial and industrial loans. As the bank has grown, the number of small business loans has also increased. As of June 30, 1996, the bank had 588 outstanding small business loans in its loan portfolio. As of June 30, 1997, that number had increased by 32% to 776 loans. By dollar amount, however, the bank's outstanding small business loans increased only slightly (6%). This suggests that the bank is extending more small business loans in smaller dollar amounts. Although the bank's small business lending has increased in number since the previous examination, its percentage of the bank's total lending activity has declined.

Although consumer purpose lending represents only a small portion (5.6%) of the bank's outstanding loan dollars, consumer lending is increasing. Between June 30, 1996 and June 30, 1997, outstanding consumer loans and credit cards increased by approximately $4.8 million. Most of this increase stemmed from the bank's nationwide credit card marketing efforts. Since the vast majority of credit cards were extended outside of the assessment area, credit cards were not included in the bank's CRA performance evaluation. Nonetheless, even with the exclusion of credit cards, the volume of consumer loans in terms of number are significant and have substantial impact in serving the assessment area's credit needs. The following table summarizes the bank's lending during those months for each of the three identified product types.

Figure 1

BANK LENDING BY PRODUCT - APRIL 1996 TO MARCH 1997				
Product Type	Number of Loans	Percentage	Loan Volume	Percentage
1-4 Family Residential Real Estate	216	33%	$23,515,533	40%
Consumer Purpose[2]	226	35%	$4,107,764	7%

[2] The category of consumer loans includes all loans to individuals for household, family and other expenditures that are not secured by real estate. Credit extensions arising from the bank's credit cards and prearranged overdraft plans are not included.

Commercial	211	32%	$31,319,994	53%

The data in the previous paragraphs and the loan breakdown in Figure 1 suggest that commercial and residential real estate lending continue to be major lending strategies of the bank. In addition, during this review period, the bank has significantly increased the number of consumer loans extended. As a result, in addition to small business and residential real estate loans, examiners also considered consumer purpose loans in the evaluation of the bank's lending performance.

The bank's rating at its May 13, 1996 Community Reinvestment Act examination was "Satisfactory." Although the bank's residential real estate lending performance did not meet the standards for satisfactory performance during that review period, the bank's small business lending helped overcome that deficiency, resulting in a satisfactory rating at the previous examination. At that time small business lending was a much larger percentage of overall lending than it is at the current examination.

DESCRIPTION OF *HUMBOLDT AND TRINITY COUNTIES:*

Humboldt Bank designated its assessment area as all of Humboldt and Trinity Counties. The total population of the assessment area is 132,181 persons with the majority of the population (119,118) living in Humboldt County. Trinity County is sparsely populated. Within Trinity County, the towns of Weaverville and Willowcreek provide essential services. The 1997 HUD adjusted median family income for the assessment area is $35,400 which results in the following income categories.

Figure 2

Assessment Area Income Categories				
Median Family Income	Low Income (<50%)	Moderate Income (50%-79%)	Middle Income (80%-119%)	Upper Income (>120%)
$35,400	<=$17,700	$17,701-28,319	$28,320-42,479	>$42,480

There are thirty census tracts within the bank’s assessment area. The one low-income tract is located off the Humboldt Bay, and 1990 census data reflects a population of only 58 military personnel. This census tract has neither households nor median income; therefore, it was excluded from consideration at this CRA examination. Of the remaining twenty-nine census tracts, twenty-one (72%) are either middle- or upper-income and eight (28%) are moderate-income. The 1990 census data also indicate that individuals within the assessment area are not confined to particular census tracts based on their income levels, but rather are evenly disbursed throughout the assessment area. For example, middle income census tracts are the most heavily populated and contain 55% of all low-income, 62% of all moderate-income, 67% of all middle-income, and 67% of all upper-income families residing within the assessment area.

According to 1990 census data, twenty-two percent (22%) of the families living in the assessment area have incomes less than $17,700, which is considered to be low-income. Of these families, almost 60% live below the national poverty level. Due to their very low incomes, these individuals are typically unable to participate in the regular housing market. A document provided by bank management indicated that in Arcata, there is a significant list of low-income families waiting for affordable rental housing. The document further quoted an estimate that 76% of low-income residents are overpaying rent as a percentage of their income. Generally, this statistic would include families paying more than 30% of their incomes in rent. These factors indicate that the demand for low-income rental housing exceeds the supply of such units in the community.

Eighteen percent of the families living in the assessment area are considered to have moderate-incomes. A community contact informed examiners that housing affordability is increasing for moderate-income families. Economic data for Humboldt County supported the contact's statement. Humboldt County's per capita real income, adjusted for its population growth and inflation, has risen 1% every year since 1994. Information from the community contact revealed that Humboldt County's median housing prices have remained fairly stable since 1994, fluctuating between $110,000 and $115,000. As real income has been increasing and housing sales prices have remained stable, housing has become relatively more affordable.

Examiners also visited a local real estate office to obtain information on current listings. Of the 99 houses listed, thirty-nine percent (39%) were listed below $90,000, demonstrating a supply of housing available within the price range of moderate-income families. The realtor informed the examiner that the sample was representative of the overall listings in the area. The contact's information was also informally supported by information gathered by examiners from real estate listings posted on the Internet which revealed fifteen listings for dwellings located in Arcata, Eureka and Willow Creek, ranging between $24,000 and $83,000, seven of which were below $53,000. A few of the dwellings listed below $53,000 were manufactured houses and the bank offers financing for manufactured housing. This data suggests that there are affordable housing opportunities for moderate-income and possibly low-income families. Figure 3 provides an example of a range of housing prices that a low- or moderate-income family could reasonably afford on a 30-year mortgage, using FNMA Community HomeBuyers' housing payment underwriting guidelines and an 8.25% interest rate.[3]

Figure 3

	Affordable Housing Price Ranges	
Income Range	Monthly Payment	Loan Amount
< $17,700	$0 -$487	$0 - $53,000
$17,701 - $28,319	$488 - $779	$53,000 - $90,000

[3] A current rate in effect at the time of the examination.

The Humboldt/Trinity County region is primarily mountainous except for the bay plain surrounding Humboldt Bay where the region's largest urban centers, Eureka and Arcata, are located. The area's coastal geography sustains three of the region's primary industries: timber, fishing, and tourism. In the past, the local economy has been dependent upon the success of these three industries and legislative restraints placed upon the logging of old growth forests have adversely affected the region's economy. However, a community contact explained that recent increases in lumber prices and productivity gains by local timber mills have reversed the employment losses of the 1980s. Timber and timber-related industries, as well as manufacturing industries, employ more people now than in 1982. For example, the contact stated that timber and timber-related industries sustained 4,200 jobs in 1982, and, at the low point in the decline of these industries (1993), employment stood at 3,725. Current (May 1997) employment in these industries stands at 4,700 jobs, exceeding the 1982 level. The contact also described similar trends within the manufacturing industries, which evidenced a 24% growth in employment opportunities (5,700 jobs to 7,100 jobs) from 1983 to 1997. Aside from the timber and manufacturing industries, numerous specialty industries have developed within the region contributing to a 107% growth (1982 to 1993) in small businesses and service industries.[4]

Employment data indicates there are approximately 5,700 businesses within Humboldt and Trinity Counties and that 82% of them have less than 10 employees. Businesses of this size experienced a 10% growth rate from 1994 to 1995[5]. Even with this job creation, unemployment is typically 1% above the California state average (e.g. in March, 1997; Humboldt County-7.6% and California-6.6[6]). Community contacts characterized this difference as those persons who are in between jobs due to the seasonal nature of area industries. In terms of the number of employees, federal, state, and local government employ the largest number of people.[7]

Due to its relatively remote location, businesses located in Humboldt and Trinity Counties experience some competitive disadvantages because they are often required to conduct business or trade in non-local markets. As a result, the Humboldt economy tends to lag behind the rest of California. Even with this economic lag, the economic data available for the overall assessment area indicates that the economy is improving and the capacity of borrowers, both individuals and businesses, to borrow money is increasing.

Organizations contacted to ascertain the credit needs of Humboldt Bank's assessment area included city, county and tribal governments, fair housing counselors and housing advocacy groups, economists, community development corporations, and business consultants. These organizations identified the credit needs in Humboldt and Trinity Counties as small business loans, residential real-estate mortgages, and consumer purpose credit. In particular, these organizations underscored the need for unsecured small business loans, especially in moderate-income tracts[8], as these businesses grow beyond

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[4] The contact supplied employment data that had been obtained from U. S. Bureau of Labor Statistics.

[5] California State Employment Development Department.

[6] The Index of Economic Activity for Humboldt County, School of Business and Economics, Humboldt State University, in conjunction with Humboldt Bank.

[7] California State Employment Development Department

[8] California Employment Development Department data indicates that 47% of all assessment area businesses are in moderate-income tracts, 45% are in middle-income tracts, and eight percent are in upper-income tracts.

their initial development phase.

Community contacts described small business lending as a necessary supplement to the regional economic efforts of public and private entities to increase the quality and quantity of employment opportunities available in the two counties. For example, contacts described the following opportunities for local financial institutions: the City of Eureka's development of the Main Street District, the Arcata Economic Development Corporation's incubator program for growing small businesses, and the Humboldt Bay dredging project, designed to provide local businesses with increased access to international markets. In addition, there are opportunities for participation by local institutions in the residential mortgage market, including loans to low- and moderate-income individuals, resulting from affordable housing programs offered by the U. S. Department of Agriculture and the Federal National Mortgage Association (FNMA) and from the large stock of existing housing and available land for development in the region.

Based on the data gathered by the examiners about the economic conditions of the assessment area and the credit needs identified by community contacts, examiners noted that there were numerous and viable lending opportunities for Humboldt Bank throughout its assessment area, given the bank’s condition, capacity, and business strategies.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Examiners measured Humboldt Bank's Community Reinvestment Act (CRA) activities through the application of the CRA's Small Bank Performance Standards. These criteria assess the bank's loan-to-deposit ratio, the volume of lending within its assessment area, the dispersion of loans by borrower income and business revenue, and the geographic distribution of loans within the assessment area. A statistical sample of the bank's major product types (119 residential real-estate, 111 small business, and 135 consumer purpose loans) was selected to evaluate these criteria. The six-month sample period ranged from October, 1996 through March, 1997. Examiners incorporated demographic and economic data for the assessment area and unique bank characteristics into the analysis. In addition, community members were interviewed to ascertain the assessment area's credit needs and the efforts of local financial institutions to meet those needs. Conclusions with respect to the performance criteria are presented in the order of importance, beginning with lending to borrowers of different incomes and businesses of different sizes and geographic distribution. No complaints regarding the bank's CRA performance have been received; therefore, the bank's record of taking action in response to such complaints is not rated.

LENDING BY BORROWER INCOME AND BY BUSINESS REVENUE:

This criterion examines the bank's distribution of loans extended within its assessment area, by number and dollar volume, to borrowers of differing incomes and businesses of different sizes. Borrowers of differing incomes are defined by their income level relative to California's non-metropolitan area median income. Businesses of different sizes are measured by their gross annual revenue. Small businesses have annual revenues less than or equal to $1 million dollars; large businesses have gross annual revenues greater than $1 million dollars.

Residential Mortgage Loans

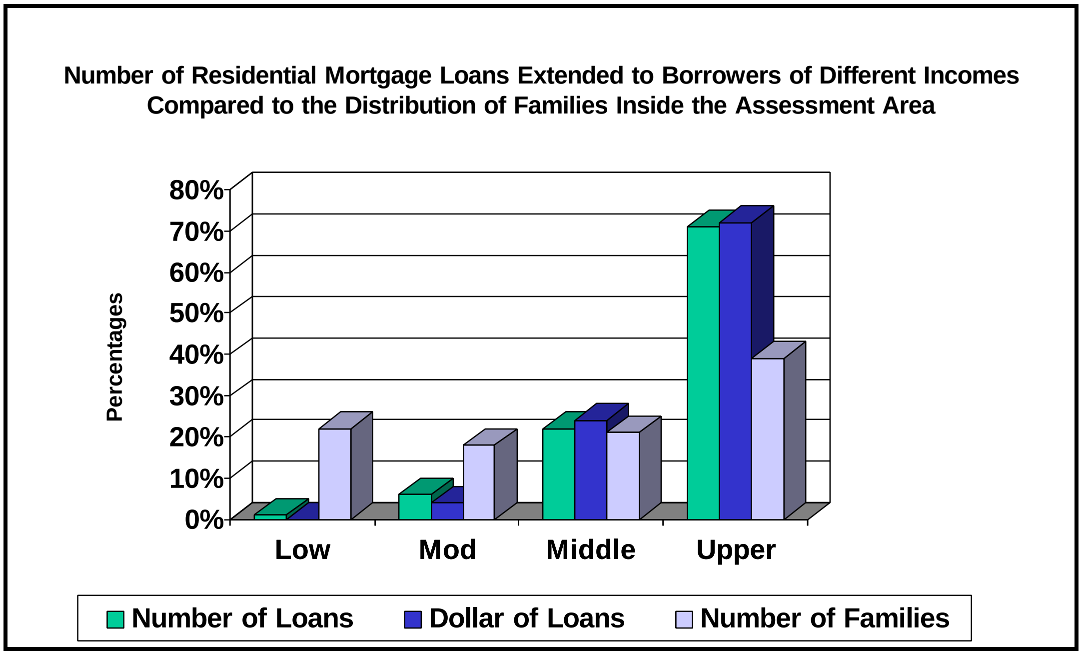
To determine Humboldt Bank's performance in lending to borrowers of differing incomes, examiners compared the number and dollar volume of loans extended to low-, moderate-, middle-, and upper-income individuals (as a percentage) to the percentages of low-, moderate-, middle-, and upper-income families living in the assessment area. Individuals are classified as low-, moderate-, middle-, or upper-income by comparing their gross annual income at the time the loan was extended to the HUD Adjusted Median Income for the non-metropolitan areas in the State of California. The mix of families within the assessment area is derived from the 1990 Census data. As illustrated on the following table and graph, the number and loan dollar volume of residential mortgage of loans extended compares unfavorably with the dispersion of income groups within the assessment area.

Figure 4

Comparison Of Loan Distribution By Income Level Of Borrower And Income Characteristics Of The Assessment Area Population

PERCENTAGE OF	Low Income		Moderate Income		Middle Income		Upper Income	
Total Families In Assessment Area	22.1%		18.2%		20.6%		39.1%	
	#	$	#	$	#	$	#	$
Total Real Estate Loans In Assessment Area	1%	0.2%	6%	4%	22%	24%	71%	72%

Figure 5



As depicted by the charts above, low- and moderate-income families comprise, respectively, 22% and 18% of the bank's assessment area. During the six months reviewed, only one residential real estate loan (1%) was extended to low-income borrowers and only seven (6%) of the 117 residential real estate loans were extended to moderate-income borrowers. The dollar volume of lending to these income groups was even lower, 0.2% and 4%, respectively. This gap between the bank's lending and the demographics of the community indicates that the bank is meeting the credit needs of low- and moderate-income families only on a limited basis. Moreover, although lending to middle-income borrowers approximates the percentage of middle-income individuals in the assessment area, the bank's lending performance with respect to upper-income borrowers, both in number (71%) and dollar volume (72%) of loans, accentuates the limited lending to low- and moderate-income individuals.

During the time period covered by the prior CRA Public Evaluation, the bank had not extended any residential mortgage loans to low-income borrowers. However, the bank's record of lending to moderate-income borrowers was significantly stronger than its current performance. At that time, the bank had extended nine loans (16%) to moderate-income borrowers, which more closely represented the percentage of moderate-income families within the assessment area. Nonetheless, at the previous examination, the level of residential real estate lending by borrower income did not meet the standards for a satisfactory performance. The level of lending to low- and moderate-income borrowers is lower at this examination and bank management was unable to explain the current levels of lending or the declining trends.

In addition to mortgages, the need of affordable rental-housing financing also exists in the assessment area. Performance context information provided by bank management showed that, in the City of Arcata, a significant number of low-income families are waiting for affordable housing. This fact indicates that the demand for low-income housing exceeds the supply of such units in this community, and provides the bank with the opportunity to help meet affordable housing needs through its commercial lending. Since the previous examination, the bank extended a $600,000 loan to a local non-profit corporation to finance the conversion of a motel into 37 low-income rental-housing units. By participating in this innovative and complex community development loan, the bank helped meet affordable housing needs for low-income families in one of the cities within its assessment area.

Small Businesses Loans

Lending to businesses of different sizes, as defined by business revenue, measures the banks' record of extending credit to assessment area businesses. A small business loan is a commercial loan or a loan secured by non-farm non-residential real estate with an original loan amount of less than $1 million. Within the group of small business loans, loans to small businesses are those extended to businesses with gross annual revenues of less than $1 million.

Examiners reviewed 104 of the 109 small business loans extended within the bank's assessment area for which the bank was able to provide business revenue figures. Of these, sixty-six loans (63%) were extended to small businesses. This penetration rate compares favorably with 65% penetration rate at the previous examination. The penetration rates with regard to loan dollars show that 65% of all loan dollars went to small business during the current review period as compared to 77% during the previous review period. These figures would indicate that the loans extended to small businesses are smaller dollar loans. These trends are depicted in the following graphs.

Figure 6

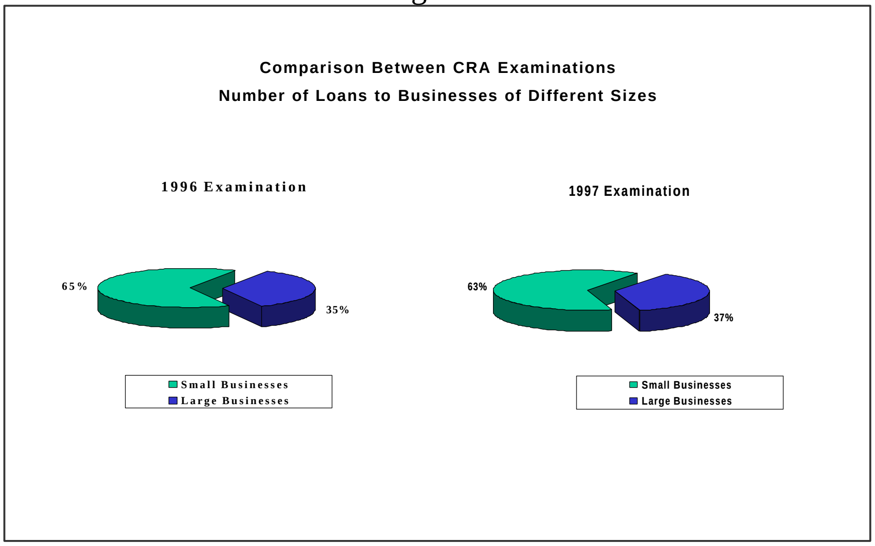
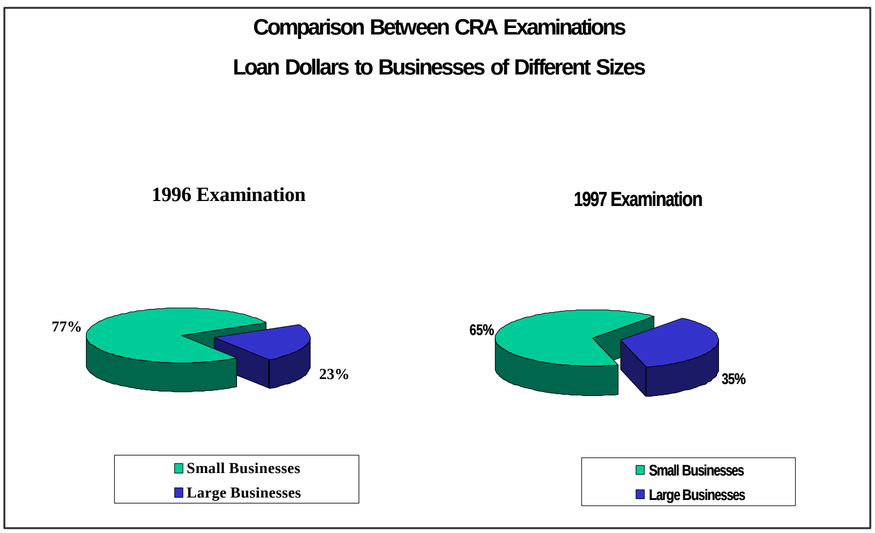


Figure 7



As a benchmark, examiner's compared the bank's record of lending to businesses of different sizes (measured by annual revenue) to the number and size of businesses located within its assessment area (measured by number of employees). Although businesses with revenues of $1 million or less are considered small businesses by regulatory definition, business revenue information for the businesses in the assessment area was not available. Therefore, examiners used the number of employees as a revenue proxy to distinguish between large and small businesses within the assessment area. As previously described in the assessment area description, eighty-two percent (82%) of the businesses within the assessment area employ fewer than ten people, suggesting that there is a high percentage of small businesses within the assessment area. Although the bank's percentage of loans to small businesses (63%) is lower than the percentage of small businesses (as determined by proxy) within the assessment area, the bank remains receptive to the credit needs of businesses of all sizes.

Consumer Loans

The number and dollar volume of consumer loans to low- and moderate-income individuals also reflects an unfavorable lending propensity toward upper-income individuals. Fifty-eight percent (58%) of the number of loans extended and 71% of the loan dollars supplied within its assessment area were extended to upper-income individuals. The types of consumer loans offered by the bank, such as new and used auto loans, overdraft lines, credit cards, are generally used by low- and moderate-income individuals. As with the residential loans, bank management was unable to explain this relatively low level of lending to low- and moderate-income individuals.

The bank's overall record of lending to borrowers of different incomes and businesses of different sizes has declined and no longer meets standards for satisfactory performance, primarily due to the low level of residential lending to low- and moderate-income individuals. The bank's record of lending to small businesses, although adequate, is insufficient to overcome the bank's poor residential mortgage lending performance. Additionally, the bank's record of consumer lending, which has been growing in volume since the previous examination, exhibited the same trend as the bank's residential lending toward upper-income borrowers.

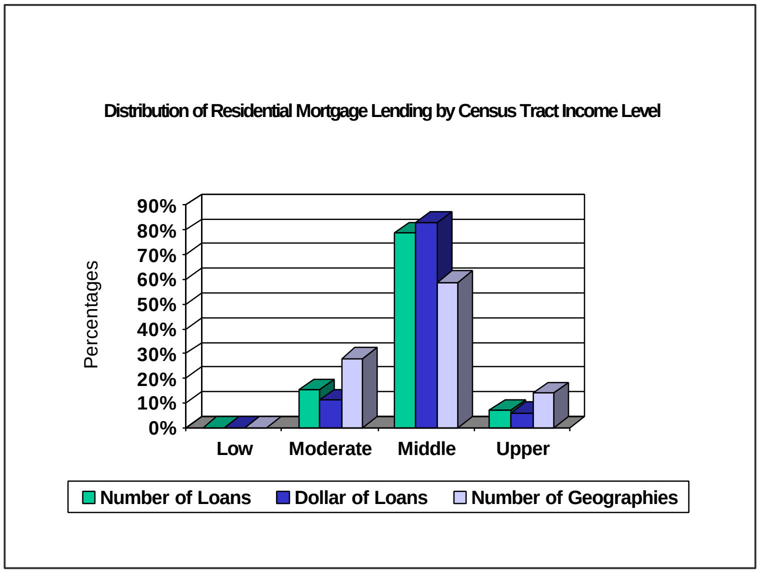
GEOGRAPHIC DISTRIBUTION OF LOANS:

The geographic distribution of loans measures the bank's lending performance within low-, moderate-, middle-, and upper-income geographies within the assessment area. Examiners considered the bank's residential real estate, small business and consumer loans in the analysis of this criterion.

Residential Mortgage Loans

Geographies or census tracts within the assessment area are categorized as low-, moderate-, middle-, or upper-income based on the median income of the individuals living within those census tracts relative to California's non-metropolitan area median income. As graphically illustrated in figure 8, the bank has lent within each income category; however, the distribution of the bank's residential mortgage loans is disproportionately concentrated in middle-income census tracts.

Figure 8

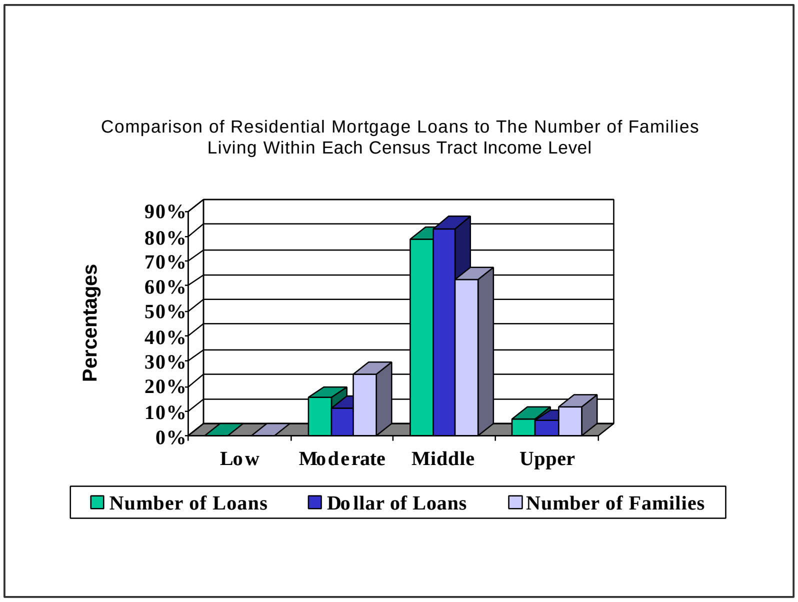


To more accurately measure the bank's level of performance within census tracts of each income category, examiners also compared the bank's residential mortgage lending to the number of families living within census tracts (as defined by the 1990 census data) for each income category. As stated in the performance context, there are no populated low-income census tracts in the assessment area. In addition, approximately 25% of the families within the assessment area live in moderate-income tracts. Using the distribution of families within the assessment area as a benchmark, it is reasonable to expect that approximately 25% of the residential loan demand would originate from the moderate-income census tracts. In actuality, only 15% of the bank's residential mortgage loans and 11% of the residential mortgage dollars originated in moderate-income census tracts. This comparison is presented visually in the following table and bar graph.

Figure 9

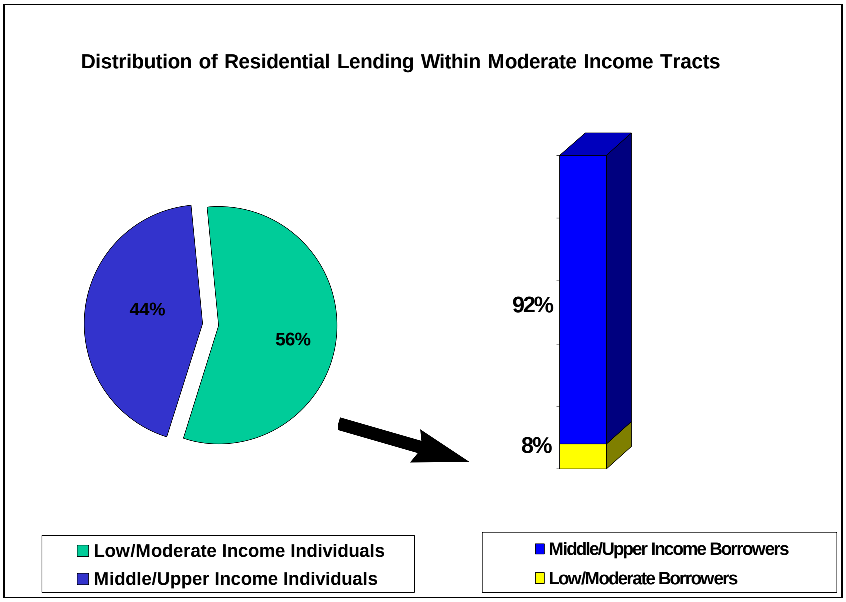
Comparison Of Loan Distribution By Income Level Of Census Tract To The Census Tracts By Income Category Within The Assessment Area								
PERCENTAGE OF	**Low Income**		**Moderate Income**		**Middle Income**		**Upper Income**	
Families Living In Each Census Tract Income Category	0%		25%		63%		12%	
	#	**$**	**#**	**$**	**#**	**$**	**#**	**$**
Residential Mortgages In Census Tracts By Income Category	0%	0%	15%	11%	79%	83%	7%	6%

Figure 10



Although this penetration represents an improvement over the bank's performance during the prior examination, where only 7% of the bank's residential mortgage loans were extended within moderate-income census tracts, four of the bank's five newest branches were opened within moderate-income census tracts. The bank opened three in 1995 and one in 1997. At the prior examination, examiners did not place as much emphasis on the branches opened in 1995, giving bank management time to establish themselves in the community. Furthermore, although the bank's record of lending in moderate-income census tracts improved, the majority of those loans extended within moderate-income tracts were extended to middle- and upper-income borrowers. Approximately 56% of the families in moderate-income census tracts are considered to have either low- or moderate-incomes; however, only 8% of the residential mortgage loans originated within moderate-income census tracts were extended to low- or moderate-income borrowers. In other words, even though middle- and upper-income families comprise only 44% of the families in moderate-income tracts, they received 92% of the residential real estate loans. There was no information in the performance context, nor did bank management provide any explanation for this disproportionate lending pattern. The graph on the following page illustrates this lending pattern.

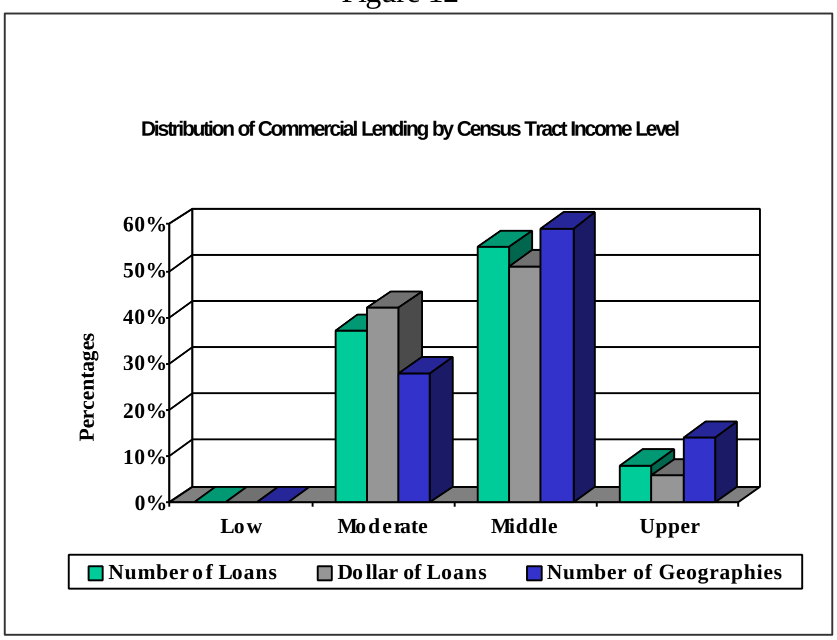
Figure 11



Small Business Loans

As with residential mortgage loans, examiners first compared the bank's small business lending to the percentage of census tracts within its assessment area. Based on this comparison, the bank has extended small business loans within each of the three income categories of census tracts represented within the assessment area, as depicted in Figure 12.

Figure 12



Although this comparison indicates that the bank is more heavily lending in moderate-income census tracts, this comparison does not take into consideration where businesses are actually located. For example, according to a community contact, two of the census tracts in Trinity County (0002.00 and 0003.98) have no businesses located within them; therefore, it would unreasonable to expect the bank to extended commercial loans in either of those two tracts. A more accurate measurement is to compare the bank's lending to the level of opportunities or business concentration within each income category of geographies. Therefore, to measure the bank's performance in lending in the various geographies within its assessment area, examiners compared the bank's small business lending to the number and size of businesses located within each income category of census tracts. According to data supplied by the California Employment Development Department, 47% of the assessment area's businesses are located within moderate-income census tracts.[9] Comparatively, the bank's small business lending within those tracts is 37% (in numbers) and 42% (in loan dollar volume). This difference is considered reasonable and is illustrated in Figures 13 and 14.

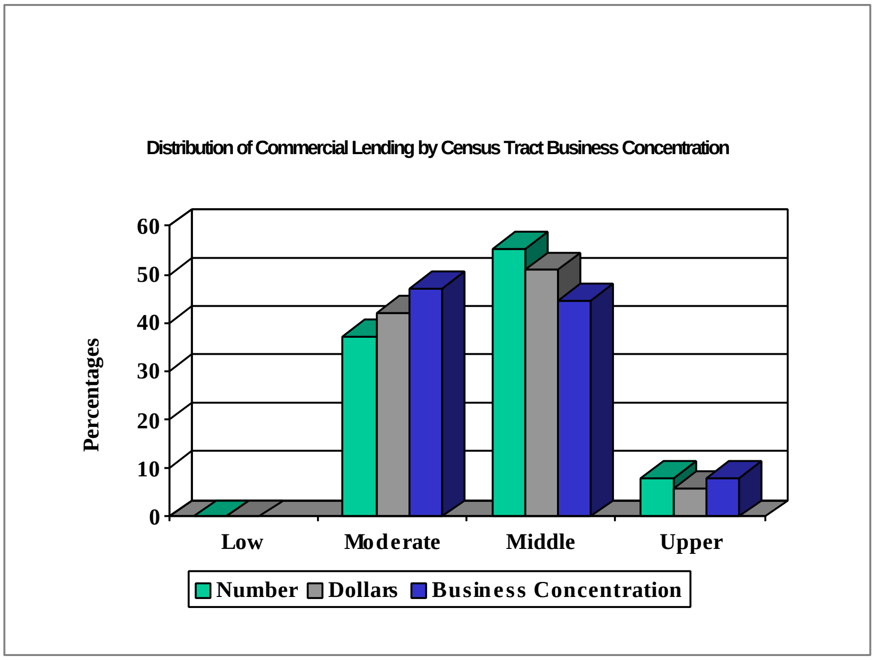
Figure 13

Comparison Of Small Business Loan Distribution By Census Tract Income Category To The Number of Businesses Within Each Census Tract Income Category In The Assessment Area

PERCENTAGE OF	Low Income		Moderate Income		Middle Income		Upper Income	
Businesses In Census Tracts By Income Category	0%		47%		45%		8%	
	#	$	#	$	#	$	#	$
Small Business Loans By Census Tracts Income Category	0%	0%	37%	42%	55%	51%	8%	6%

[9] Data provided by Humboldt Bank indicates 49.8% of assessment area businesses are located in moderate-income census tracts.

Figure 14



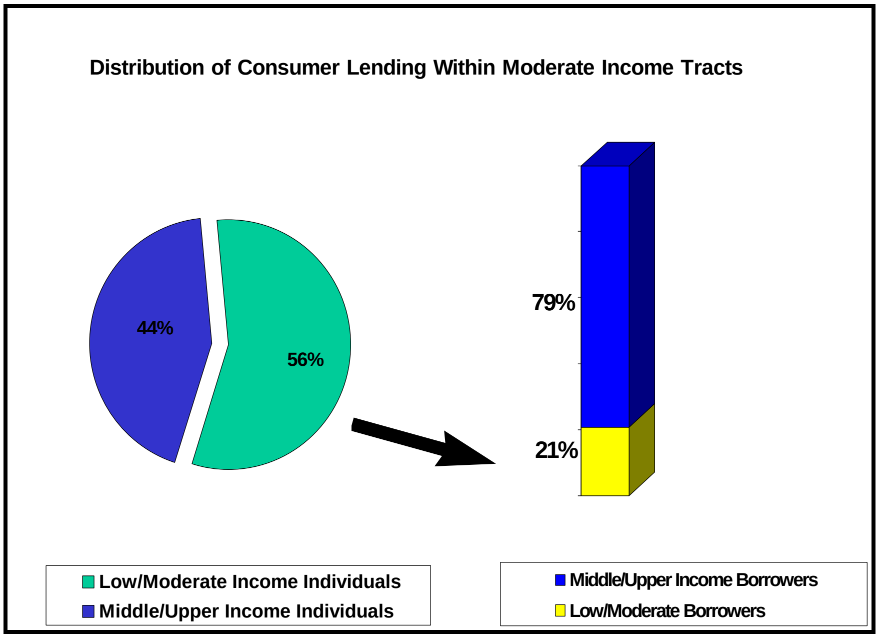
During the examination, a community contact stated that the bank was not lending to the smaller businesses located within the moderate-income neighborhoods in the city of Eureka. Examiners investigated this comment and determined that the bank extended 24 small business loans within these three moderate-income census tracts, eleven of which (46%) were extended to small businesses. Given the higher percentage of lending to small businesses in the bank's overall assessment area (63%), this lower percentage demonstrates that the bank is not as responsive to the needs of small businesses located within moderate-income tracts as it is to businesses located in other portions of the assessment area.

The bank's record of small business lending within moderate-income census tracts remains basically unchanged since the prior examination. Given the bank's expanded branch presence in moderate-income census tracts and the additional information gathered through community contacts, examiners determined that the bank's level of small business lending remains adequate. However, this record is not as strong as it was in the past.

Consumer Loans

As with the bank's residential mortgage lending, the number and dollar volume of consumer loans within moderate-income census tracts also reflects an unfavorable lending trend toward middle- and upper-income borrowers. Although 56% of the population in moderate-income tracts are low- and moderate-income families, only 21% of those loans were extended to low- or moderate-income borrowers. This comparison is depicted in Figure 15 on the following page.

Figure 15



Overall, the geographic distribution of the bank's loans does not meet standards for satisfactory performance, primarily due to the distribution of residential real-estate loans. In addition, the bank's consumer lending also exhibited a disproportionately unfavorable trend toward middle-income geographies. Although the distribution of small business loans was generally adequate, it is not sufficient to overcome the deficiencies noted in the real-estate and consumer lending.

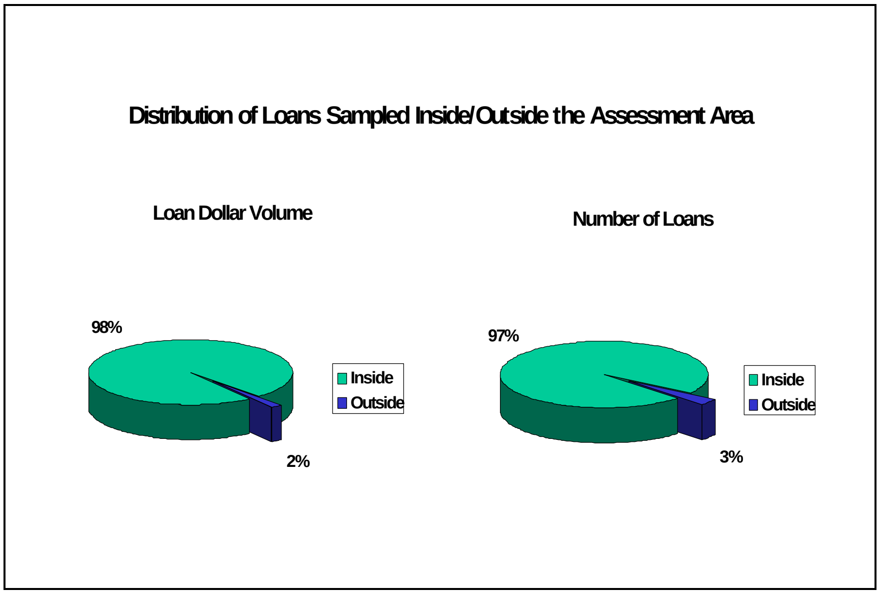
LOAN TO DEPOSIT RATIO:

The loan-to-deposit ratio measures the bank's lending volume in light of the institution's capacity to lend, demographic and economic factors, and lending opportunities available in the assessment area. To compensate for seasonal fluctuations, examiners utilized an average of the quarterly loan-to-deposit ratios since the bank's previous CRA examination. The bank's average loan-to-deposit ratio for the period from April 1996 to March 1997 was 74.77%. During that time, deposits grew 13.7% and the bank's loan-to-deposit ratio increased from 72.00% to 76.76%. Also, secondary market activities since the previous examination resulted in $21.3 million of residential mortgages sold. If these loans had been retained, the loan-to-deposit ratios for each of the four quarters would have been approximately 90%. Accordingly, this performance criteria is rated as exceeding standards for a satisfactory performance.

LENDING IN ASSESSMENT AREA:

This criterion evaluates the bank's lending in and out of its assessment area both by dollar amount and number of loans. The bank's overall lending within its assessment area is 97.2% in terms of the number of loans extended and 98.2% in loan dollars as demonstrated on the following chart.

Figure 16



The bank's performance of lending within its assessment area exceeds standards for a satisfactory performance.

RESPONSE TO COMPLAINTS:

No complaints were received concerning the bank's CRA performance during the review period; therefore, the institution's record of taking action in response to such complaints is not rated.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS:

The determination of Humboldt Bank's rating under the Community Reinvestment Act incorporates the institution's compliance with fair lending laws and regulations. These laws and regulations are the Equal Credit Opportunity Act, the Fair Housing Act, and the Home Mortgage Disclosure Act. There was a pattern of substantive violations of the Equal Credit Opportunity Act, which were limited to one credit program. Bank management had not implemented sufficient policies and procedures to ensure that discriminatory lending practices would not occur. Since the examination, bank management has taken steps to prevent the violative practices from recurring. The discriminatory policy and practice were insufficient to lower the bank's CRA rating to a substantial noncompliance; however, they underscore the need to improve the bank's lending performance in helping to meet the credit needs of its community, including low- and moderate-income borrowers and low- and moderate-income geographies.