

# **PUBLIC DISCLOSURE**

**June 11, 2001**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Solano Bank  
2914361  
403 Davis Street  
Vacaville, California 95688**

**Federal Reserve Bank of San Francisco  
101 Market Street  
San Francisco, California 94105**

*NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.*

## **TABLE OF CONTENTS**

I.	Institution	1
II.	Performance Context	2
	A. Description of Institution	2
	B. Description of Assessment Area	3
III.	Conclusions with Respect to Performance Criteria	5
	A. Scope of Examination	5
	B. Loan-to-Deposit Ratio	5
	C. Lending in Assessment Area	5
	D. Lending by Borrower Income and Business Revenue	6
	E. Geographic Distribution of Loans	7
	F. Response to Complaints	8
IV.	Compliance with Fair Lending Laws and Regulations	8
V.	Appendix A – Glossary of Terms	9

## **INSTITUTION**

**Institution's CRA Rating:** This institution is rated Satisfactory.

Solano Bank's overall performance under the Community Reinvestment Act is satisfactory. This was the first assessment of the bank's CRA performance and the results indicate that the bank is meeting the credit needs of its community in a manner consistent with its resources, capacity and lending strategy. The bank's loan-to-deposit ratio continues to increase at a pace that indicates the bank is determinedly extending credit. Moreover, loan volume reflects this growth with a majority of the bank's credit extended within its defined assessment area. Loans have been granted to borrowers of different income as well as businesses of different size. Furthermore, the geographic dispersion of credit extended shows a reasonable response to the different income geographies in its market.

## **PERFORMANCE CONTEXT**

### **Description of Institution**

Solano Bank, which has its principal office in Vacaville and branches in Fairfield and Benicia, commenced operations on July 17, 2000, with an initial capitalization of \$9 million. Fairfield, the newest branch, opened for business on October 3, 2000. The bank is a wholly-owned subsidiary of North Bay Bancorp, a bank holding company with total assets of approximately \$247 million as of December 31, 2000. North Bay Bancorp also owns The Vintage Bank (Napa, California), which has been in operation since 1985 and is the lead bank of the holding company.

Solano Bank is a full-service retail bank, offering a wide variety of products and services including internet and 24-hour telephone banking. As of December 31, 2000, the bank had \$23 million in assets, \$2 million of which were loans. The following chart details the bank's loan distribution as of December 31, 2000.

<b>Loan Type</b>	<b>Dollar Amount ('000s)</b>	<b>% of Total</b>
Commercial and Industrial & Non-Farm/ Non-Residential Real Estate	454	21
Construction and Land Development	0	0
Secured by 1-4 Family	412	20
Secured by Multifamily	1,200	56
Farmland and Agriculture	0	0
Credit Cards	0	0
Consumer	72	3
Acceptance of Banks	0	0
States and Political Subsidiaries	0	0
All Other	0	0
Lease Financing	0	0
<b>Total (Gross)</b>	<b>2,138</b>	<b>100</b>

As of March 31, 2001, bank assets had grown to \$33 million. Total assets have been steadily increasing from quarter to quarter, with an important contributor being the quarter-to-quarter growth in gross loans and leases. On the liability side, total deposits have also shown strong growth, aggregating more than \$25 million by March 2001.

## Description of Assessment Area

Solano Bank's 834 square mile assessment area encompasses sixty-eight census tracts of Solano County, of which one is a low-income tract and sixteen are moderate-income tracts. Solano County is located primarily in the Sacramento Valley, situated in the northeast section of the San Francisco Bay Area. The county's features include an extensive transportation network and a relatively large supply of affordable land for housing and commercial development. The county is a highly competitive banking area. Communities located inside the assessment area include Vallejo, Vacaville, Suisun City and Fairfield. The county is one of the fastest growing in California; between 1999 and 2020, Solano County's population is projected to grow 41 percent, from 392,200 to 552,100.<sup>1</sup>

The following table depicts the composition of the bank's assessment area based on census tract income levels, with the corresponding population within those tracts.

Income Categories	Census Tracts		Population	
	Number	%	Number	%
Low Income	1	1.5	1,375	0.4
Moderate Income	16	23.5	56,867	17.7
Middle Income	37	54.4	180,958	56.3
Upper Income	14	20.6	82,183	25.6
Assessment Area Total	68	100.0	321,383	100.0

The median family income for the assessment area is \$46,115, approximately sixteen percent above the state median income of \$39,595.<sup>2</sup> Of the population residing in the assessment area, 1.5 percent live in the one low-income tract, and 23.5 percent live in the sixteen moderate-income tracts. The majority of the population and families in the assessment area are located in middle-income tracts (37 of 68 tracts). Similarly, the majority of businesses, 55 percent, are located in middle-income census tracts.<sup>3</sup>

On average, small businesses account for the vast majority (88.4 percent) of businesses in the bank's assessment area. The distribution of small businesses is slightly higher in low-income census tracts, 90.2 percent, than in upper-income census tracts, 86.9 percent.

The following table depicts the breakdown of Solano County's businesses by type of income tract and gross revenues.

---

<sup>1</sup> Source: California Employment Development Department home page at [www.calmis.ca.gov](http://www.calmis.ca.gov)

<sup>2</sup> Source: 2000 U.S. Census data, 1997 model-based estimate

<sup>3</sup> Source: Dun and Bradstreet

Income Level of Census Tract	Breakdown of Businesses by Annual Gross Revenues		% of Total Businesses in the Tracts	Small Businesses as % of Total Businesses
	< or = \$1 million	>\$1 million		
Low-Income	238	17	2.5	90.2
Moderate-Income	1,675	90	17.3	89.1
Middle-Income	5,247	371	55.0	88.6
Upper-Income	1,871	150	19.8	86.9
Total	9,031	628	94.6*	88.4

\* Businesses where revenue was not reported represent 5.4 percent of the area's businesses.

In 1998, the assessment area's employment was dominated by the services, retail trade and government sectors. Services is the largest industry sector in the assessment area, accounting for 24.4 percent of the total employment, closely followed by retail trade, 23.2 percent, and government, 21.8 percent.<sup>4</sup>

The unemployment rate for the assessment area in 1999 was 4.6 percent, compared with 5.2 percent for California and 3.3 percent for neighboring Napa County. The unemployment rate in Solano County has mirrored the downward trend of unemployment rates in California between 1995 and 1999.<sup>5</sup>

According to the Industry Trends and Outlook for Solano County, more than 75 percent of the projected job growth will be in services, manufacturing and retail trade during the forecast period of 1995-2002. For that period, the services industry is the fastest growing sector with a projected growth of 36.3 percent.<sup>6</sup> Currently, major employers in the assessment area include Anheuser-Busch Brewery (Fairfield), ALSA Pharmaceuticals (Vacaville), the Exxon Company, Travis Air Force Base, and the California State Prison and Medical Facility in Vacaville.<sup>7</sup>

---

<sup>4</sup> Source: State of California, Employment Development Department, Labor Market Information

<sup>5</sup> Source: State of California, Employment Development Department, Labor Market Information

<sup>6</sup> Source: State of California, Employment Development Department, Labor Market Information

<sup>7</sup> Source: State of California, Employment Development Department, Labor Market Information

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

### **Scope of Examination**

Solano Bank's performance under the Community Reinvestment Act was evaluated by applying four of the five small bank performance criteria stipulated by the regulation. These criteria include loan volume in comparison to deposits (Loan-to-Deposit Ratio), lending inside and outside the assessment area (Lending in the Assessment Area), the distribution of lending to consumers of different income levels and businesses of different sizes (Lending by Borrower Income and by Business Revenue) and lending dispersion throughout the census tracts within the assessment area (Geographic Distribution of Loans). The bank's responsiveness to complaints regarding its CRA performance was not evaluated because no such complaints were received during the period of review.

To evaluate the bank's record of lending inside versus outside the assessment area, examiners included all loans extended during the review period of July 17, 2000 through March 31, 2001. Only those loans extended within the bank's assessment area were then used to determine the bank's record of lending to businesses of different sizes and its record of lending in census tracts or geographies of different income levels.

### **Loan-to-Deposit Ratio**

Solano Bank's average loan-to-deposit ratio for the period of review is reasonable given the bank's age, financial condition and the assessment area's credit needs. The ratio indicates the bank is increasingly extending credit and reinvesting deposits in loans in its community.

To assess the bank's performance under this criterion, its loan-to-deposit ratios for the quarters encompassing the period of review were averaged.

For the review period the bank's average loan-to-deposit ratio was 13.82 percent. This ratio is low, however, during this period, it has been increasing steadily, from 4.48 percent at September 30, 2000 to 22.90 percent at March 31, 2001. The bank's loans have increased at a greater rate than deposits. This rate of increase reflects an affirmative effort on the part of the bank to meet the credit needs of its community. Accordingly, the performance of the bank meets the standards for satisfactory performance.

### **Lending in Assessment Area**

A majority of the bank's lending falls within its assessment area both in number of loans and dollar volume and meets the standards for satisfactory performance.

Of the 68 loans sampled, 55 (19 business and 36 consumer purpose loans) were within the assessment area of the bank. The 55 loans represent 81 percent and 71 percent, by dollar amount, lent inside the assessment area.

### **Lending by Borrower Income and Business Revenue**

The bank’s distribution of loans to businesses of different sizes and to borrowers of different income levels meets the standard for satisfactory performance.

#### Consumer Loans

The bank demonstrated a reasonable response to consumers in each of the four income categories. The bank extended 36 consumer loans during the review period; two to low-income borrowers, one to moderate-income borrowers, four to middle-income borrowers, and the remainder to upper-income borrowers (see table below). The majority of the bank’s loans have been extended to upper-income borrowers, loans to low- and moderate-income borrowers represent 8.3 percent of loans originated. While the percentage of loans to low- and moderate-income consumers is somewhat low compared to the 18.1 percent that low- and moderate-income individuals represent of the assessment area population. However, it is considered reasonable given the bank’s limited time in the market and overall lending volume.

	<b>Type of Borrower</b>			
	<b>Low- Income</b>	<b>Moderate- Income</b>	<b>Middle- Income</b>	<b>Upper- Income</b>
Consumer Loans by Number	2	1	4	29
Percentage	5.6	2.7	11.1	80.6
Consumer Loans by Dollar	11	1	100	1,457
Percentage	0.7	0.1	6.4	92.9

#### Business Loans

The bank’s percentage of loans to small businesses is reasonable. Small businesses represented 88.3 percent of all businesses in the assessment area. Comparably, 50 percent of the bank's commercial loans<sup>8</sup> are to businesses with revenues under \$1 million. Further analysis reveals that five of the eight loans to small businesses (62.5 percent) were made in amounts less than or equal to \$250,000, addressing an identified credit need in the assessment area. An identified constraint on the bank’s performance under this criterion is that due to the start-up phase of operations and its limited time in the local market.

---

<sup>8</sup>For this analysis commercial loans consisted of the 16 commercial loans generated by the bank within its assessment area for which business revenue information is available.



	<b>Revenues of Business Borrower</b>	
	<b>Gross Revenues &lt; or = \$1 Million</b>	<b>Gross Revenues &gt; \$1 Million</b>
Small-business Loans by Number	8	8
Percentage	50.0	50.0
Small-business Loans by Dollars	\$1,623	\$4,387
Percentage	24.6*	66.6*

\* Three business loans representing 8.80 percent of loans by dollar did not have business revenue information.

## **Geographic Distribution of Loans**

Solano Bank's distribution of loans across census tracts of different income levels shows a reasonable dispersion and meets standard for satisfactory performance.

### Business Loans

The table below illustrates a preponderance of lending in middle-income census tracts in the market, which is reasonable because these tracts make up a majority of the assessment area. The low- and moderate-income census tracts are served extensively by numerous competitors with established relationships in the community, consequently, the bank's activity levels are less robust.

<b>Income</b>	<b>Tracts</b>		<b>D&amp;B Data</b>		<b>Solano Business Loans</b>			
	<b>#</b>	<b>%</b>	<b>Total Bus #</b>	<b>Total Bus %</b>	<b>#</b>	<b>%</b>	<b>\$(000's)</b>	<b>%</b>
Low	1	1.47	261	2.62	0	0.00	0	0.00
Moderate	16	23.53	1859	18.66	3	15.79	1,061	16.10
Middle	37	54.41	5765	57.87	11	57.89	4,036	61.23
Upper	14	20.59	2077	20.85	5	26.32	1,495	22.68
Total	68	100.00	9962	100.00	19	100.00	6,592	100.00

### Consumer Loans

The bank's penetration of census tracts of differing income classifications is reasonable. The table below illustrates a concentrated distribution similar to that in middle-income census tracts. While there are no consumer loans in the sample extended in low-income census tracts, the absence of lending in this sole tract is not of supervisory concern given that less than 1 percent of the households reside there. Additionally, due to the bank's commercial lending focus, consumer loans were not weighted as heavily in the overall assessment.

Income	Tracts		Distribution of Households		Solano Consumer Loans			
	#	%	#	%	#	%	\$(000's)	%
Low	1	1.47	649	0.61	0	0.00	0	0.00
Moderate	16	23.53	19,129	17.84	1	2.78	1	0.06
Middle	37	54.41	62,449	58.23	13	36.11	522	33.27
Upper	14	20.59	25,017	23.33	22	61.11	1,046	66.67
Total	68	100.00	107,244	100.00	36	100.00	1,569	100.00

### **Response to Complaints**

The bank's responsiveness to complaints regarding its CRA performance was not evaluated because no such complaints were received during the period of review.

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

The bank is in compliance with all substantive provisions of the anti-discrimination laws and regulations. No violations were noted during the examination that would indicate that Solano Bank engages in any type of discrimination or discouragement in its lending activities.

## **GLOSSARY OF FREQUENTLY USED TERMS**

### **Area Median Income (Median Income)**

The median family income for the Metropolitan Statistical Area (MSA) if a person or geography is located in an MSA, or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

### **Assessment Area**

A geographic area which generally consists of one or more MSAs or one or more contiguous subdivisions, such as counties, cities or towns. Assessment areas also include geographies in which the bank has its main office, its branches and its deposit taking ATMs, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans (including home mortgage loans, small business loans, small farm loans, and any other loans the bank chooses, such as those consumer loans on which the bank elects to have its performance assessed).

### **Community Development**

- (1) Affordable housing (including multifamily rental housing) for low- or moderate-income individuals.
- (2) Community services targeted to low- or moderate-income individuals.
- (3) Activities that promote economic development by financing business or farms which have gross annual revenues of \$1 million or less or that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs.
- (4) Activities that revitalize or stabilize low- or moderate-income geographies.

### **Community Development Loan**

A loan that has as its primary purpose community development; and, except in the case of a wholesale or limited purpose bank:

- (1) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan; and
- (2) Benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

<b>Community Development Service</b>	A service that has as its primary purpose community development, is related to the provision of financial services, and has not been considered in the evaluation of the bank's retail banking services under CRA.
<b>Consumer Loans</b>	Loans to one or more individuals for household, family or other personal expenditures. A consumer loan does not include a home mortgage, small business or small farm loan. Examples of consumer loans are: Motor Vehicle Loans, Credit Card Loans, Home-Equity Loans, Secured Consumer Loans and Unsecured Consumer Loans.
<b>Census Tract</b>	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.
<b>Family Income</b>	Includes the income of all members of a family that are age 15 and older.
<b>Families</b>	Defined by the U.S. Bureau of Census as all persons occupying a housing unit related to the householder by birth, marriage or adoption. A single person living alone or two or more unrelated individuals occupying the same household are not considered to be a family.
<b>Geographies</b>	Census tracts or numbering area blocks delineated by the U.S. Bureau of Census in the most recent decennial census.
<b>Household Income</b>	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.
<b>Households</b>	Defined by the U.S. Bureau of Census as all persons occupying a housing unit.
<b>Housing Unit</b>	Includes a house, an apartment, a mobile home, a group of homes, or a single room that is occupied as separate living quarters.

<b>HUD Adjusted Median Income</b>	Based initially on the area median income derived from the most recent decennial census, the Department of Housing and Urban Development adjusts the figure annually for inflation.
<b>Income Level</b>	Includes low-income, moderate-income, middle-income and upper-income.
<b>Low-Income</b>	An individual income that is less than 50 percent of the HUD- adjusted median income or a census tract or block numbering area with a median family income that is less than 50% of the area median income.
<b>Median Income</b>	See Area Median Income and HUD Adjusted Median Income
<b>Metropolitan Statistical Area (MSA)</b>	An area qualifies as an MSA if it contains a city with a population of at least 50,000 or is defined by the Bureau of the Census as an urbanized area and has a population of 50,000 or more and a total metropolitan population of 100,000.
<b>Middle-Income</b>	An individual income that is at least 80 percent and less than 120 percent of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is at least 80 and less than 120 percent of the area median income.
<b>Moderate-Income</b>	An individual income that is at least 50 percent and less than 80 percent of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is at least 50 and less than 80 percent of the area median income.
<b>Owner-Occupied Housing Unit</b>	Includes housing units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.
<b>Qualified Investment</b>	A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

<b>Real Estate Mortgage Loan</b>	Defined by the Home Mortgage Disclosure Act (HMDA) as a home purchase loan, home improvement loan or the refinancings for both. A home purchase loan is any loan secured by and made for the purpose of purchasing a dwelling. A home improvement loan is for the purpose, in whole or part, of repairing, rehabilitating, remodeling, or improving a dwelling or the real property on which it is located and is classified by the financial institution as a home improvement loan.
<b>Small Bank</b>	A bank that, as of December 31 of either of the prior two calendar years, had total assets of less than \$250 million and was independent or an affiliate of a holding company that, as of December 31 of the prior two calendar years, had total banking and thrift assets of less than \$1 billion.
<b>Small Business</b>	Businesses with gross annual revenues of \$1 million or less as defined by the Community Reinvestment Act.
<b>Small Business Loan</b>	Business purpose loans with original amounts of \$1 million or less as defined by the instructions for the Consolidated Reports of Condition and Income (CALL Report) for entry on schedule RC-C, part II "Loans to Small Businesses."
<b>Upper-Income</b>	An individual income that is 120 percent or more of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is 120 percent or more of the area median income.