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Comptroller of the Currency  
Administrator of National Banks

**SMALL BANK**

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## **PUBLIC DISCLOSURE**

**August 24, 1998**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Sierra National Bank  
Charter Number 17510**

**224 West "F" Street  
Tehachapi, California 93561**

**Comptroller of the Currency  
550 North Brand Boulevard, Suite 500  
Glendale, California 91203  
(818) 240-9192**

<b>NOTE:</b>	<b>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.</b>
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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 CRA performance of **Sierra National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **August 24, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

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

Sierra National Bank is committed to serving the communities in which it operates. Its lending performance throughout the assessment area is satisfactory, based upon the following criteria:

- Lending to borrowers within the bank's assessment area exceeds the standard for satisfactory performance.
- Lending to borrowers of different incomes and to businesses of different sizes is satisfactory.
- The geographic distribution of loans does not meet the standard for satisfactory performance.
- Although the bank's loan-to-deposit ratio for the last eight quarters is lower than those reported by similarly situated banks, it is still satisfactory.
- The bank has received no CRA related complaints since the last performance evaluation.

## DESCRIPTION OF INSTITUTION:

Sierra National Bank (Sierra) opened in November 1982. The bank's main office is in Tehachapi, California, a high desert community in Central California approximately 40 miles southeast of Bakersfield. Sierra operates three full service branches: one in the Old Town section of Tehachapi, a few miles from the main office; a branch office in California City, twenty miles east of Tehachapi; and a branch in Bakersfield, opened in 1996. Sierra has one deposit taking Automated Teller Machine (ATM) in each branch office. A deposit taking ATM is also maintained at the Tehachapi Data Center. As of June 30, 1998, Sierra reported total assets of \$92 million and total deposits of \$86 million. There are no financial or legal impediments to the bank's ability to meet the credit needs of its assessment area.

Sierra's portfolio mix is dominated by residential real estate mortgages, primarily originated by the Bakersfield branch. The bank supports affordable housing, with approximately 40 percent of residential construction loans made for amounts less than \$100,000. Sierra also lends to small and medium sized businesses in the communities they serve. The following table reflects the bank's outstanding loan portfolio by major product type:

### LOANS OUTSTANDING BY MAJOR PRODUCT TYPE AS OF JUNE 30, 1998

Loan Type	Number of Loans	Loan Outstandings by \$ (000's)	% of Total Loans by \$
Real Estate*	437	\$42,450	84%
Commercial*	105	5,252	10%
Home Equity	46	1,450	3%
Consumer	199	1,443	3%
Total	787	\$50,395	100%

\* Agricultural loans of \$1.4 million are included in both commercial loan and real estate categories, depending on type of collateral.

## DESCRIPTION OF THE ASSESSMENT AREA:

Management has designated the bank's single assessment area as the cities of Tehachapi, California City, Bakersfield, and the rural areas surrounding these communities. The assessment area consists of 88 census tracts, all within the Kern County Metropolitan Statistical Area (MSA) and includes approximately 80 percent of the county's population. In October 1997, management decided to expand the assessment area by adding eight census tracts encompassing the cities of Shafter and Wasco next to the northwest border of Bakersfield and the Buttonwillow Division, southwest of Bakersfield. The assessment area meets the legal requirements of the regulation.

Low- and moderate-income census tracts are not excluded from the assessment area.

The following table represents a breakdown of the census tracts within the assessment area by income category:

**ASSESSMENT AREA COMPOSITION**

<b>Census Tract Type</b>	<b>Number of Tracts in Assessment Area</b>	<b>Percent of Assessment Area by #</b>
Low-income	4	5%
Moderate-income	24	27%
Middle-income	30	34%
Upper-income	29	33%
NA*	1	1%
<b>Total</b>	<b>88</b>	<b>100%</b>

\* 1990 census reported no income information for this tract.

The 1990 census for Kern County’s MSA reflects a median family income of \$33,367. Based on the last census, there are about 433,000 residents in the assessment area.

Tehachapi is primarily a bedroom and retirement community. The city’s population is 6,582 as of January 1, 1998, and the greater Tehachapi area population is now approximately 24,000<sup>1</sup>. The California Correctional facility is the largest employer in the Tehachapi area, employing 1,725 people. The second largest local employers are two bulk cement plants, employing more than 400 people. The high desert economy has remained flat for many years due to an overall lack of growth in the Tehachapi and Antelope Valley economies, but the area did not experience as severe a downturn as experienced in California’s recent recession. New industrial, commercial and residential housing development is limited in the Tehachapi area. However, a new specialty chemical processing plant was built in Tehachapi in early 1998, employing more than 60 people.

Bakersfield is the county seat of Kern County. The city has a metropolitan area population of 380,000 or approximately 60 percent of the total county population of 640,000 persons, as of January 1998<sup>1</sup>. The Bakersfield market has fully recovered from the California recession and the healthy new job creation rate is fueling high demand for residential housing. The western portion of Bakersfield is experiencing a substantial increase in single family and 1-4 multi-family housing. This strong growth rate has stimulated the market for entry level housing and the bank is actively targeting single family residential construction lending in the metropolitan Bakersfield area.

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<sup>1</sup> 1998 and projected population data source - Kern County Council of Governments and California Department of Finance.

Bakersfield has achieved a well-diversified economy in recent years, with less dependency on oil production. Agricultural production continues to be a leading contributor to Bakersfield's economy. Bakersfield's annual population growth rate is estimated at 2.3 percent between 1990 and 2000<sup>1</sup>. The area's growth rate substantially exceeds the 1.3 percent for the entire state of California during the same period.

California City, with a 1998 population of 8,795 is north of Edwards Air force Base<sup>1</sup>. This is primarily a retirement community with little economic activity or growth. California City's housing market was adversely affected by an Air Force decision several years ago to move military personnel onto the base's housing facilities. Bank management believes that this trend will reverse, due to growing on-base shortages of housing at Edwards, which is expected to stimulate demand for housing in the surrounding areas.

As part of this examination, we considered information received from six community contacts. Our contacts indicate that there are needs in the assessment area for small business loans and for first-time mortgage loans, as well as affordable housing. There is also a need for technical assistance and financial grants. Our community contacts show that entry level housing prices range between \$60,000 and \$80,000 in the bank's assessment area.

Our contacts included two community development groups, an economic development agency, a small business development center, a non-profit development corporation, and a local housing authority. Three of the groups had favorable comments about Sierra.

#### **DEFINITIONS:**

**Median Family Income (MFI)** - The median income is determined by the United States Census Bureau every ten years and used to determine the income level category of the census tracts.

**Low-Income** - Income levels that are less than 50 percent of the MFI.

**Middle-Income** - Income levels that are at least 80 percent and less than 120 percent of the MFI.

**Upper-Income** - Income levels that are 120 percent or more than the MFI.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

Our conclusions are based on the bank’s lending activity from December 1, 1996 through July 31, 1998. We used loan data developed by the bank and tested the accuracy of that information by sampling 20 business loans and 20 single family real estate loans funded within the assessment area.

**Lending in Assessment Area.**

The bank exceeds the standard for lending to borrowers within the assessment area. The bank made 96 percent (by number) and 93 percent (by dollar) of its loans within the assessment area during the period reviewed. The following table reflects the bank’s lending performance during the review period:

**LENDING INSIDE THE ASSESSMENT AREA**

Volume of Loan Originations Within the Assessment Area						
Loan Products	Total Loan Originations		Within the Assessment Area			
	#	\$ (000)	#	%	\$ (000)	%
Real Estate, Commercial & Consumer Loans	606	\$44,130	579	96%	\$40,833	93%

**Lending to borrowers of different incomes and businesses of different sizes.**

Sierra’s residential real estate loans are reasonably well distributed among borrowers of different incomes. Based on our review of all single family residential loans made during the review period, the bank extended 20 percent of loans by numbers and 12 percent by dollars to low- and moderate-income borrowers. The following table depicts the distribution of these loans:

**LENDING TO INDIVIDUALS OF DIFFERENT INCOMES  
WITHIN THE ASSESSMENT AREA  
(Residential Real Estate Loans)**

<b>Income Characteristic of Census Tracts</b>	<b>Loan Dollars (000)</b>	<b>Percent of Dollars</b>	<b>Number of Loans</b>	<b>Percent of Numbers</b>
<b>Low</b>	\$584	3%	13	8%
<b>Moderate</b>	1,579	9%	19	12%
<b>Middle</b>	2,656	15%	35	22%
<b>Upper</b>	12,910	73%	92	58%
<b>Total</b>	\$17,821	100%	159	100%

The bank's business loans are well distributed among businesses of different sizes. We found that 71% of loans made to businesses had revenues of \$1 million or less.

**LOANS TO BUSINESSES OF DIFFERENT SIZES  
(Commercial Loans\*)**

<b>Business Revenues</b>	<b>Number of Loans</b>	<b>Percentage of Loans</b>	<b>Dollar Amount of Loans (000)</b>	<b>Percentage of Dollar Amounts</b>
<b>\$1,000,000 or Less</b>	87	84%	\$6,385	71%
<b>Over \$1,000,000</b>	16	16%	2,671	29%
<b>Total</b>	103	100%	\$9,057	100%

\* Does not include residential construction loans of approximately \$14 million. The bank did not collect revenue information on these loans.

**Geographic Distribution of Loans.**

The bank's geographic distribution of loans reflects less than satisfactory dispersion within its assessment area. Sierra has a number of gaps in their lending within the assessment area, most notably in the low- and moderate-income census tracts clustered around the downtown part of Bakersfield.

All four of the low-income census tracts are found in downtown Bakersfield. All but one of the 24 moderate income census tracts are in the greater Bakersfield area. Fourteen of these are in the old downtown Bakersfield area, and nine are in the surrounding farming communities of Shafter, Wasco, Arvin and Lamont. The one remaining moderate census tract is in sparsely populated California City.

In the two years the Bakersfield branch has been operational, the bank has made relatively few loans in the census tracts near central Bakersfield, which is predominantly a mature commercial and retail zone. The central city area is fully developed and offers few new single family residential development opportunities, which is the bank’s primary lending focus. Approximately 60% of the bank’s commercial loans originated in the past 20 months have been in the Bakersfield area, but these loans were primarily made in middle and upper income tracts. However, commercial and retail loans are a less significant part of the bank’s current lending strategy. Sierra’s management acknowledges that there is demand for small business loans in the downtown area; and they need to expand their lending in these low- and moderate-income census tracts.

Of the 87 census tracts in the entire assessment area with reported income, the bank originated loans in 53 of these tracts over the past 20 months. And, 76 of all census tracts in the assessment area are concentrated in the Bakersfield area. In addition, all but one of the low- and moderate-income census tracts are in the greater Bakersfield area. The table below highlights the loan distribution within the census tracts that received loans from the bank:

**DISTRIBUTION OF LOANS BY NUMBERS  
WITHIN ASSESSMENT AREA**

<b>Income Characteristic of Census Tracts</b>	<b>Percent of Total Census Tracts</b>	<b>Number of Loans</b>	<b>Percent of Loans</b>
<b>Low</b>	5%	2	0.4%
<b>Moderate</b>	27%	58	10.7%
<b>Middle</b>	34%	112	20.6%
<b>Upper</b>	33%	370	68.3%
<b>Total</b>	100%	542	100.0%



**DISTRIBUTION OF LOANS BY DOLLARS  
WITHIN ASSESSMENT AREA**

<b>Income Characteristic of Census Tracts</b>	<b>Percent of Total Census Tracts</b>	<b>Loan Dollars (000)</b>	<b>Percent of Loans</b>
<b>Low</b>	5%	\$105	0.3%
<b>Moderate</b>	27%	7,524	18.8%
<b>Middle</b>	34%	4,759	11.9%
<b>Upper</b>	33%	27,594	69.0%
<b>Total</b>	100%	\$39,982	100.0%

**Loan-to-Deposit Ratio.**

Sierra's loan-to-deposit ratio meets the standard for satisfactory performance, given the bank's size, financial condition and operating environment. Its average loan-to-deposit ratio for the eight quarters ended March 31, 1998, is 57 percent. Sierra's ratio is lower than the average loan-to-deposit ratios of three similarly situated banks within Kern County. These banks' loan-to-deposit ratios averaged 66 percent over the same period. The reason that Sierra's ratio is lower for this period is due to the purchase of \$12 million in deposits from a competitor in Tehachapi in early 1997.

**Responses to complaints.**

The bank has not received any CRA related complaints since the last performance evaluation.

**Record of anti-discrimination law compliance.**

We conducted a concurrent Fair Lending examination and found no unusual patterns or discriminatory lending practices. The bank complies with Fair Lending laws and regulations.