

PUBLIC DISCLOSURE

February 21, 2023

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Redwood Capital Bank
Certificate Number: 57610

402 G Street
Eureka, California 95501

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
San Francisco Regional Office

25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

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.

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INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area (AA), including low- and moderate-income (LMI) neighborhoods, in a manner consistent with its resources and capabilities.

The Lending Test is rated Outstanding.

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and the AA credit needs.
- A substantial majority of loans and other lending related activities are in the institution's AA.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.
- The distribution of borrowers reflects, given the demographics of the AA, excellent penetration among businesses of different revenue sizes and retail customers of different income levels.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the Lending Test rating.

The Community Development Test is rated Satisfactory.

The institution's Community Development (CD) performance demonstrates an adequate responsiveness to CD needs in its AA through CD loans, qualified investments, and CD services, as appropriate, considering the institution's capacity and the need and availability of such opportunities for CD in the institution's AA.

DESCRIPTION OF INSTITUTION

Redwood Capital Bank (RCB) is a state-chartered, non-member bank headquartered in Eureka, California. The bank is wholly-owned by Redwood Capital Bancorp (RDWO), a one-bank holding company formed in 2007.

RCB received a “Satisfactory” rating at the previous FDIC CRA Performance Evaluation, dated June 22, 2020, based on Interagency Intermediate Small Institution (ISB) Examination Procedures. Other than RDWO, the bank does not have any additional affiliate relationships. No branch closure, merger or acquisition activities have occurred since the previous evaluation.

The bank operates four full-service branch offices located in Humboldt County. RCB has two branches in Eureka, one branch in Fortuna and another branch in Arcata, all situated in the central western coastal region of the county. No offices were opened or closed during the current review period. Based on the 2020 United States Census data, both of the Eureka branches are situated in moderate-income census tracts (CTs).

The institution’s primary lending focus is commercial loans; however, additional significant product lines exist, such as consumer home equity lines of credit (HELOC) and Home Mortgage Loans (single family residence and multifamily). Multi-family loans increased by 7.4 percent in the current review period within RCB’s loan portfolio as RCB has increased both originations and purchases of this product. RCB offers a variety of loan products, including commercial and industrial loans (including SBA), consumer (HELOCs, unsecured lines, automobile loans), agricultural and residential loans (including first time homebuyer assistance program with the city of Arcata).

RCB also offers services for checking, savings, time deposits, and money market accounts. The bank additionally offers online and mobile banking services that includes remote deposit capture, mobile check deposit, Zelle, wire transfers, 24-hour telephone banking, and external transfers. Hours do not vary between branch locations and are 9:00 a.m. to 5:00 p.m. Monday-Thursday, and 9:00 a.m. to 6:00 p.m. on Friday. Each branch includes an automated teller machine (ATM).

As of the December 31, 2022, Consolidated Reports of Condition and Income (Call Report), assets totaled \$525.1 million, loans totaled \$379.5 million, deposits totaled \$471.6 million, and securities totaled \$74.2 million. Since the previous evaluation, total assets increased approximately 14.1 percent; securities increased 117.6 percent; and total loans increased 8.2 percent during the same period. There are no financial, legal, or other impediments limiting the institution’s ability to meet the credit needs of its AA. RCB’s loan portfolio is illustrated in the following table.

| Loan Portfolio Distribution as of December 31, 2022 | | |
|--|----------------|--------------|
| Loan Category | \$(000) | % |
| Construction, Land Development and Other Land Loans | 9,933 | 2.6 |
| Secured by Farmland | 5,573 | 1.5 |
| Secured by 1-4 Family Residential Properties | 42,979 | 11.3 |
| Secured by Multifamily (5 or more) Properties | 94,146 | 24.8 |
| Secured by Nonfarm Nonresidential Properties | 198,821 | 52.4 |
| Total Real Estate Loans | 351,452 | 92.6 |
| Commercial and Industrial Loans | 27,319 | 7.2 |
| Agricultural Production and Other Loans to Farmers | 110 | 0.0 |
| Consumer Loans | 653 | 0.2 |
| Obligations of State and Political Subdivisions in the U.S | - | - |
| Other Loans | - | - |
| Lease Financing Receivable (net of unearned income) | - | - |
| Less: Unearned Income | - | - |
| Total Loans | 379,494 | 100.0 |
| <i>Source: Call Report 12-31-2022</i> | | |

DESCRIPTION OF ASSESSMENT AREAS

The bank's AA has not changed since the previous evaluation. The bank has delineated a single county AA in the Non-MSA County of Humboldt. Humboldt County is situated in California's Northwest coastal region and shares borders with Del Norte and Siskiyou Counties to the North; Trinity County to the east; and Mendocino County to the south. While the AA CT income designations have changed in the 2020 U.S. Census data, Humboldt County included nonmetropolitan distressed middle-income CT designations affecting the current review period, in 2018 and 2020 (13 middle-income CTs were designated as distressed for poverty). This included all of the middle-income CTs in the 2010 census data situated in Humboldt County in the following areas: Eureka, Arcata, Willow Creek-Hoopa Valley, North Coastal region, Fortuna, Garberville, and Ferndale. Humboldt County is described below:

Economic and Demographic Data

Based on the 2020 Census data, the AA consists of the following CT income designations:

- 0 low-income
- 6 moderate-income
- 24 middle-income
- 5 upper-income
- 1 with no income designation

The following table illustrates AA demographic characteristics according to the 2020 Census and 2022 D&B Data.

| Demographic Information of the Assessment Area | | | | | | |
|--|---------|------------|------------------------------|---------------|--------------|------------|
| Humboldt County | | | | | | |
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # | NA* % of # |
| Geographies (Census Tracts) | 36 | 0.0 | 16.7 | 66.7 | 13.9 | 2.8 |
| Population by Geography | 136,463 | 0.0 | 20.1 | 65.4 | 14.5 | 0.0 |
| Housing Units by Geography | 63,003 | 0.0 | 20.3 | 65.1 | 14.6 | 0.0 |
| Owner-Occupied Units by Geography | 30,761 | 0.0 | 15.7 | 64.9 | 19.4 | 0.0 |
| Occupied Rental Units by Geography | 23,359 | 0.0 | 25.1 | 67.1 | 7.8 | 0.0 |
| Vacant Units by Geography | 8,883 | 0.0 | 23.9 | 60.3 | 15.9 | 0.0 |
| Businesses by Geography | 11,414 | 0.0 | 25.9 | 63.0 | 11.1 | 0.0 |
| Farms by Geography | 891 | 0.0 | 22.2 | 65.8 | 12.0 | 0.0 |
| Family Distribution by Income Level | 29,287 | 22.6 | 16.7 | 20.7 | 40.0 | 0.0 |
| Household Distribution by Income Level | 54,120 | 29.0 | 16.8 | 15.3 | 38.9 | 0.0 |
| Median Family Income Non-MSAs - CA | | \$70,728 | Median Housing Value | | | \$336,128 |
| | | | Median Gross Rent | | | \$1,028 |
| | | | Families Below Poverty Level | | | 10.2% |
| <i>Source: 2020 U.S. Census and 2022 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i> | | | | | | |

California

According to Moody’s Analytics as of December 2022, the State of California is experiencing a cooling economy as employment gains are slowing. Leisure/hospitality and healthcare played the largest parts in the final upward trend of employment gains, which are now past their peak. Home sales at the state level have plummeted to near-historic lows and inventories have rebounded to pre-pandemic levels; however, affordability continues to trend downward sharply. High prices, soaring mortgage rates, and sluggish income growth are pushing home buying out of reach for many residents.

Competition

RCB operates in a slightly competitive market. As of June 30, 2022, RCB competed with 5 national, regional, and other community banks operating 18 branches in the AA. Larger financial institutions with local offices include Wells Fargo, U.S. Bank, and JP Morgan Chase Bank. In addition, RCB competes with other nonbank financial service providers, such as credit unions and Fintechs, for loan customers throughout the AA.

RCB’s market share of deposits in the AA is 19.5 percent, representing a 2nd place ranking according to FDIC’s Summary of Deposits Report.

Community Contact

As part of the evaluation process, examiners contacted third parties active in the AA to assist in identifying the credit and CD needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit and CD opportunities are available.

Examiners contacted an economic development organization situated within the AA. The contact assists small businesses and provides financial education in the AA, primarily to LMI population. The contact indicated that current economic conditions are depressed due to tightening monetary cycle of interest rate hikes. The local economy struggles due to the legalization of marijuana which has priced out many small businesses associated with this industry in the AA, as well as the demise of the logging industry. The contact went on to state that there is existing strong levels of support from lending programs focused on established businesses and startups. Both the marijuana industry and tourism are key sources of income for the communities in Humboldt County.

The contact indicated that the local housing market continues to struggle with high costs of entry for many people looking to buy as well as very high rental rates. The issue is further complicated by a shortage of homes available. The contact indicated that there is an opportunity to build more housing if the local government would ease building restrictions related to zoning and use innovative or creative ideas, such as finding space for new builds as land availability within Eureka city limits is very sparse. The contact identified additional needs of the AA to be low cost funding, free grant programs to aid small business/startups, and more education directed to LMI and small business communities.

Credit and Community Development Needs and Opportunities

Considering area demographics, economic data, conversation with bank management and community contact, examiners determined that small business lending, particularly micro-lending, and affordable housing are the most significant credit needs in the AA.

Additionally, affordable housing represents a critical CD need of the AA; however, opportunities are limited due to low supply, limited space, lack of innovation, and high cost. Opportunities exist for meeting the needs of small business lending, financial education, and affordable housing. Additionally, given the large homeless population and lack of affordable housing, there will be a continued need to assist and retain the LMI population of the AA through community services, including education.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the previous evaluation dated June 22, 2020, to the current period dated February 21, 2023. Examiners used the ISB Examination Procedures to evaluate the

institution's CRA performance. RCB's performance will be evaluated using full-scope procedures within Humboldt County.

Activities Reviewed

RCB is not subject to reporting requirements, nor does it internally collect any CRA-related data. Examiners selected three relevant and most significant lending channels to review for the most recent full calendar year, 2022. Examiners confirmed with bank management this review would be indicative of the bank's performance throughout the review period. While small farm loans exist, they were nominal and would not offer any meaningful conclusions for the timeframe evaluated; therefore, small farms were not included in this CRA performance analysis.

Considering the bank's business strategy and the number and dollar volume of loans originated during the review period, small business loans represent a major product line and will be weighted the most in the overall conclusions. Consumer loans (HELOCs) will be weighted next. Lastly, home mortgage loans will carry the least amount of weight in the overall conclusions of the Lending Test.

For the Lending Test, examiners analyzed the universe of small business loans originated and purchased in calendar year 2022. The total universe of CRA small business loans in 2022 is 115 loans totaling approximately \$29.4 million. Examiners pulled a random sample of 47 small business loans totaling \$13.7 million.

Examiners also analyzed the universe of HELOCs originated and purchased in calendar year 2022. The total universe of HELOCs in 2022 is 97 loans totaling approximately \$13.9 million. Examiners pulled a random sample of 41 consumer loans totaling \$5.3 million.

Examiners also analyzed the universe of home mortgage loans originated and purchased (excluding HELOC) in calendar year 2022. The total universe of home mortgage loans in 2022 is 106, which includes 27 multifamily loans totaling approximately \$30.2 million and 79 single family residence mortgage loans totaling approximately \$24.4 million. Examiners pulled a random sample of 47 home mortgage loans totaling approximately \$28.0 million.

Examiners utilized random samples for each product. Samples were utilized at the institution level for each product sampled. Samples were pulled at a 90 percent confidence level and a 10 percent precision level. This means there is a 90 percent chance that the results from the sample will be within 10 percentage points of the true proportion for the criterion evaluated.

HELOCs are compared against the percentage of households, while home mortgages are compared to the percentage of families for borrower profile as families are the most likely entity to purchase a home. For geographic distribution conclusions, home mortgages are compared to the percentage of owner occupied units.

Please note that while RCB is not a reporter, aggregate data was not available for 2022 as of this evaluation date. Examiners compared the bank's small business lending performance against the 2022 D&B data. It should be noted, that D&B data includes all businesses in a given area that

voluntarily respond to a survey request, including a large number of small businesses that have limited or no credit needs. The D&B data is primarily considered an indicator of business demographics in the AA, and is not considered an absolute distribution of credit needs or commercial lending opportunities.

For the CD Test, examiners evaluated the institution’s CD loans, qualified investments and donations, and CD services from June 22, 2020 to February 21, 2023, the date of this evaluation.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

RCB’s Lending Test is rated Outstanding. Performance under the AA Concentration and Borrower Profile criteria support this conclusion.

Loan-to-Deposit Ratio

RCB’s LTD ratio is reasonable given its asset size, financial condition, and AA credit needs.

The LTD ratio averaged 70.5 percent over the previous 11 quarters from June 30, 2020 to December 31, 2022. The LTD ratio ranged from a low of 60.3 percent as of December 31, 2021, to a high of 82.6 percent as of June 30, 2020. RCB’s ratio has experienced a downward trend when compared to its level at the previous evaluation (average 81.7 percent). RCB experienced a huge influx of deposit activity at the onset of the pandemic in 2020, which somewhat explains this drop in performance; however, RCB has continued to grow its loan portfolio throughout the review period. Overall, deposit activity has peaked and since come down as the influx of deposits has now slowed. Examiners compared RCB’s average LTD performance to similar institutions based on asset size, geographic location, and lending focus.

The following table illustrates RCB’s LTD ratio compared to the similarly-situated institutions.

| LTD Ratio Comparison | | |
|--|--|--|
| Bank | Total Assets as of December 31, 2022 (\$000s) | Average Net LTD Ratio (%) |
| Redwood Capital Bank | \$525.1 | 70.5 |
| Similarly-Situated Institution #1 | \$1,330.8 | 55.4 |
| Similarly-Situated Institution #2 | \$478.1 | 60.1 |
| Similarly-Situated Institution #3 | \$582.6 | 78.2 |
| <i>Source: Call Report 06/30/2020 – 12/31/2022</i> | | |

Assessment Area Concentration

A substantial majority of lending activity is in the institution’s AA. While RCB’s home mortgage lending did not support this conclusion, this performance carried the least weight overall. A

majority of the bank’s sampled multifamily lending, including purchases, are outside the bank’s AA as only 4 of the 11 multifamily loans sampled in 2022 were in the AA, driving down the overall home mortgage performance. Nevertheless, an overwhelming majority of the small business loans and HELOCs sampled were in the AA. The following table illustrates the lending performance during this evaluation period.

| Lending Inside and Outside of the Assessment Area | | | | | | | | | | |
|--|-----------------|-------------|-----------|-------------|------------|---------------------------------|-------------|---------------|-------------|-------------------|
| Loan Category | Number of Loans | | | | Total # | Dollar Amount of Loans \$(000s) | | | | Total \$(000s) |
| | Inside | | Outside | | | Inside | | Outside | | |
| | # | % | # | % | | \$(000s) | % | \$(000s) | % | |
| 2022 | | | | | | | | | | |
| Small Business Loans | 43 | 91.5 | 4 | 8.5 | 47 | 11,337 | 82.6 | 2,380 | 17.4 | 13,717 |
| HELOCs/Consumer | 40 | 97.6 | 1 | 2.4 | 41 | 5,064 | 96.2 | 200 | 3.8 | 5,264 |
| Home Mortgages | 37 | 78.7 | 10 | 21.3 | 47 | 12,891 | 46.0 | 15,121 | 54.0 | 28,012 |
| Total | 120 | 88.9 | 15 | 11.1 | 135 | 29,292 | 62.3 | 17,701 | 37.7 | 46,993 |
| <i>Source: Bank Data Due to rounding, totals may not equal 100.0%</i> | | | | | | | | | | |

Borrower Profile

The distribution of borrowers reflects, given the product lines offered by the institution, excellent penetration among retail customers of different income levels and business customers of different revenue size. RCB’s small business and home mortgage lending performance support this conclusion.

Small Business Loans

The distribution of borrowers reflects excellent penetration among business customers of different revenue sizes. The majority of RCB’s small business loans were originated to businesses with gross annual revenues of \$1 million or less. While RCB’s performance is below the D&B demographic, this benchmark includes a number of small businesses answering a survey that are not seeking credit or rely on alternative forms of credit such as credit cards. RCB is a preferred SBA lender and that performance was exhibited throughout the review period thru its origination of SBA Payroll Protection Program (PPP), SBA 7a, and SBA 504 loans. RCB exhibits excellent distribution among small and very small businesses, an identified credit need of the AA. Using loan size as a proxy, 26 of the 43 sampled loans in the AA (60.5percent) had loan sizes of \$250,000 or less and 18 of the loans (41.9%) had loan sizes of \$100,000 or less, and 6 of the loans had loan sizes of \$25,000 or less, which demonstrate that the bank is lending to very small businesses. The following table includes the percentage of total businesses as reported by D&B as well as borrower distribution of small business loans in the AA.

| Distribution of Small Business Loans by Gross Annual Revenue Category | | | | | |
|--|------------------------|-----------|--------------|-----------------|--------------|
| Assessment Area | | | | | |
| Gross Revenue Level | % of Businesses | # | % | \$(000s) | % |
| <=\$1,000,000 | | | | | |
| 2022 | 86.5 | 28 | 65.1 | 6,753 | 59.6 |
| >\$1,000,000 | | | | | |
| 2022 | 4.1 | 15 | 34.9 | 4,585 | 40.4 |
| Revenue Not Available | | | | | |
| 2022 | 9.3 | 0 | 0.0 | 0 | 0.0 |
| Totals | | | | | |
| 2022 | 100.0 | 43 | 100.0 | 11,337 | 100.0 |
| <i>Source: 2022 D&B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i> | | | | | |

Consumer Loans (HELOCs)

The distribution of borrowers reflects, given the product lines offered by the institution, reasonable penetration among retail customers of different income levels. RCB’s performance to low-income borrowers significantly trailed the percentage of low-income households in the AA. Given the high level of population living below the poverty level (10.2 percent), a significant portion of this demographic would not be reasonably qualify for a home mortgage loan. RCB’s performance with moderate-income borrowers for 2022 is only 1.8 percent less than the percentage of moderate-income households in the AA. Considering above factors, the overall performance is reasonable.

| Distribution of Consumer Loans (HELOCs) by Borrower Income Level | | | | | |
|--|------------------------|-----------|--------------|-----------------|--------------|
| Assessment Area | | | | | |
| Borrower Income Level | % of Households | # | % | \$(000s) | % |
| Low | | | | | |
| 2022 | 29.0 | 3 | 7.5 | 330 | 6.5 |
| Moderate | | | | | |
| 2022 | 16.8 | 6 | 15.0 | 474 | 9.4 |
| Middle | | | | | |
| 2022 | 15.3 | 13 | 32.5 | 1,270 | 25.1 |
| Upper | | | | | |
| 2022 | 38.9 | 16 | 40.0 | 2,547 | 50.3 |
| Not Available | | | | | |
| 2022 | 0.0 | 2 | 5.0 | 443 | 8.7 |
| Totals | | | | | |
| 2022 | 100.0 | 40 | 100.0 | 5,064 | 100.0 |
| <i>Source: 2020 U.S. Census; Bank Data. Due to rounding, totals may not equal 100.0%</i> | | | | | |

Home Mortgage Loans

The distribution of borrowers reflects, given the product lines offered by the institution, excellent penetration among retail customers of different income levels. RCB's performance to low-income borrowers is not as strong as its performance to moderate-income borrowers. Given the high level of population living below the poverty level (10.2 percent), a significant portion of this demographic would not qualify for a home mortgage loan. RCB's performance to moderate-income borrowers significantly out-performed the percentage of moderate-income families in the AA. Considering these factors performance is excellent overall.

| Distribution of Home Mortgage Loans by Borrower Income Level | | | | | |
|---|----------------------|-----------|--------------|-----------------|--------------|
| Assessment Area | | | | | |
| Borrower Income Level | % of Families | # | % | \$(000s) | % |
| Low | | | | | |
| 2022 | 22.6 | 6 | 16.2 | 595 | 4.6 |
| Moderate | | | | | |
| 2022 | 16.7 | 10 | 27.0 | 2,617 | 20.3 |
| Middle | | | | | |
| 2022 | 20.7 | 6 | 16.2 | 1,998 | 15.5 |
| Upper | | | | | |
| 2022 | 40.0 | 9 | 24.3 | 3,900 | 30.3 |
| Not Available | | | | | |
| 2022 | 0.0 | 6 | 16.2 | 3,780 | 29.3 |
| Totals | | | | | |
| 2022 | 100.0 | 37 | 100.0 | 12,891 | 100.0 |
| <i>Source: 2020 U.S. Census; Bank Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i> | | | | | |

Geographic Distribution

RCB's geographic distribution of loans reflects reasonable penetration throughout the AA. This rating is supported by adequate performance in small business and consumer lending; however, RCB's home mortgage lending performance exceeded overall performance. Please note that there are no low-income CTs in the AA; therefore, RCB is rated on its performance within moderate-income CTs.

Small Business Loans

RCB's geographic distribution of small business loans reflects reasonable dispersion throughout the AA. The bank's performance is almost similar to the percent of businesses in moderate-income tracts for 2022. This is an improvement compared to the last evaluation where the bank's performance for 2019 was 7.0 percent below the percentage of businesses.

| Geographic Distribution of Small Business Loans | | | | | |
|--|------------------------|-----------|--------------|-----------------|--------------|
| Assessment Area | | | | | |
| Tract Income Level | % of Businesses | # | % | \$(000s) | % |
| Moderate | | | | | |
| 2022 | 25.9 | 11 | 25.6 | 2,640 | 23.3 |
| Middle | | | | | |
| 2022 | 63.0 | 30 | 69.8 | 8,662 | 76.4 |
| Upper | | | | | |
| 2022 | 11.1 | 2 | 4.7 | 35 | 0.3 |
| Not Available | | | | | |
| 2022 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Totals | | | | | |
| 2022 | 100.0 | 43 | 100.0 | 11,337 | 100.0 |
| <i>Source: 2022 D&B Data; Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i> | | | | | |

Consumer Loans (HELOCs)

RCB's geographic distribution of consumer loans reflects reasonable dispersion throughout the AA. The bank's performance by number of loans slightly exceeds the percentage of households situated in moderate-income tracts for 2022.

| Geographic Distribution of Consumer Loans (HELOCs) | | | | | |
|--|------------------------|-----------|--------------|-----------------|--------------|
| Assessment Area | | | | | |
| Tract Income Level | % of Households | # | % | \$(000s) | % |
| Moderate | | | | | |
| 2022 | 19.7 | 8 | 20.0 | 611 | 12.1 |
| Middle | | | | | |
| 2022 | 65.9 | 25 | 62.5 | 3,137 | 62.0 |
| Upper | | | | | |
| 2022 | 14.4 | 7 | 17.5 | 1,315 | 26.0 |
| Not Available | | | | | |
| 2022 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Totals | | | | | |
| 2022 | 100.0 | 40 | 100.0 | 5,064 | 100.0 |
| <i>Source: 2020 U.S. Census; Bank Data. Due to rounding, totals may not equal 100.0%</i> | | | | | |

Home Mortgages

RCB’s geographic distribution of home mortgage loans reflects excellent dispersion throughout the AA. The bank’s performance by both number and dollar volume greatly exceed the percentage of owner-occupied housing units situated in moderate-income tracts for 2022. This was also a significant improvement compared to the last evaluation where the bank’s performance was 13.6 percent lower than the percent of owner-occupied housing units for 2019.

| Geographic Distribution of Home Mortgage Loans | | | | | |
|---|--|-----------|--------------|-----------------|--------------|
| Assessment Area | | | | | |
| Tract Income Level | % of Owner-Occupied Housing Units | # | % | \$(000s) | % |
| Moderate | | | | | |
| 2022 | 15.7 | 9 | 24.3 | 2,645 | 20.5 |
| Middle | | | | | |
| 2022 | 64.9 | 24 | 64.9 | 8,596 | 66.7 |
| Upper | | | | | |
| 2022 | 19.4 | 4 | 10.8 | 1,650 | 12.8 |
| Not Available | | | | | |
| 2022 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Totals | | | | | |
| 2022 | 100.0 | 37 | 100.0 | 12,891 | 100.0 |
| <i>Source: 2020 U.S. Census; Bank Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i> | | | | | |

Response to Complaints

RCB did not receive any CRA-related complaints since the previous CRA Evaluation; therefore, this criterion did not impact the Lending Test rating.

COMMUNITY DEVELOPMENT TEST

RCB’s CD performance demonstrates adequate responsiveness to CD needs in its AA through CD loans, qualified investments, and CD services, as appropriate, considering the institution’s capacity and the need and availability of such opportunities for CD in the institution’s AA.

Community Development Loans

CD loans represent 9.0 percent of average total assets and 14.2 percent of average total loans. This performance represents an increase over prior evaluation results of 7.8 percent of average total assets and 10.3 percent of average total loans. The dollar volume increased by \$20.2 million, and number of qualified CD loans increased by 214 since the prior evaluation. Please note that, 205

SBA PPP loans qualified for CD revitalization/stabilization in the AA in 2020 and 2021, which comprises a large portion of the enhanced performance in the review period. RCB originated 18 CD loans totaling \$9.2 million in 2020; 211 CD loans totaling \$27.3 million in 2021; and 12 CD loans totaling \$12.4 million in 2022. The following table illustrates the bank’s CD loan activity in the AA during the evaluation period.

| Community Development Lending | | | | | | | | | | |
|--------------------------------------|---------------------------|-----------------|---------------------------|-----------------|-----------------------------|-----------------|--------------------------------|-----------------|---------------|-----------------|
| Activity Year | Affordable Housing | | Community Services | | Economic Development | | Revitalize or Stabilize | | Totals | |
| | # | \$(000s) | # | \$(000s) | # | \$(000s) | # | \$(000s) | # | \$(000s) |
| 2020 | 0 | 0 | 2 | 320 | 7 | 8,365 | 9 | 468 | 18 | 9,153 |
| 2021 | 2 | 799 | 1 | 40 | 12 | 8,308 | 196 | 18,129 | 211 | 27,276 |
| 2022 | 1 | 874 | 3 | 2,900 | 7 | 4,243 | 2 | 4,372 | 13 | 12,389 |
| Year-to-date (YTD) 2023 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 3 | 1,673 | 6 | 3,260 | 26 | 20,916 | 207 | 22,969 | 242 | 48,818 |

Source: Bank Data

Below are notable examples of CD loans originated in the AA over the evaluation period:

- RCB is a leader in originating SBA 504 loans in its AA to promote economic development and the hiring of employees. During the review period, RCB originated 14 such loans totaling approximately \$16.2 million in the AA.
- In 2020 and 2021, RCB originated 205 SBA PPP loans totaling approximately \$18.6 million which provided revitalization/stabilization to both moderate-income and non-metropolitan middle-income distressed census tracts of the AA by helping retain employees and jobs.

Qualified Investments

The total dollar amount of qualified investments equates to 0.4 percent of average total assets and 4.0 percent of average securities since the previous evaluation. This performance represents a decrease over prior evaluation results of 1.7 percent of average total assets and 9.3 percent of average total investments. The bank made four new qualified investments during the review period directly benefitting the AA. RCB’s dollar amount of qualified investments decreased from the previous evaluation, where investments totaled \$3.2 million.

| Qualified Investments | | | | | | | | | | |
|------------------------------|--------------------|----------|--------------------|--------------|----------------------|----------|-------------------------|--------------|-----------|--------------|
| Activity Year | Affordable Housing | | Community Services | | Economic Development | | Revitalize or Stabilize | | Totals | |
| | # | \$(000s) | # | \$(000s) | # | \$(000s) | # | \$(000s) | # | \$(000s) |
| Prior Period | 0 | 0 | 2 | 881 | 0 | 0 | 0 | 0 | 2 | 881 |
| 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 450 | 1 | 450 |
| 2021 | 0 | 0 | 1 | 150 | 0 | 0 | 1 | 375 | 2 | 525 |
| 2022 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 540 | 1 | 540 |
| YTD 2023 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Subtotal | 0 | 0 | 3 | 1,031 | 0 | 0 | 3 | 1,365 | 6 | 2,396 |
| Qualified Grants & Donations | 0 | 0 | 28 | 20 | 3 | 2 | 10 | 5 | 41 | 27 |
| Total | 0 | 0 | 31 | 1,051 | 3 | 2 | 13 | 1,370 | 47 | 2,423 |

Source: Bank Data

Below is notable examples of a CD investments and donations provided during the evaluation period:

- The bank invested in a general obligation bond totaling approximately \$540,000 benefitting a school district within the AA. The bond supports the community by revitalizing and stabilizing a distressed nonmetropolitan area through attraction and retention of residents in the community as well as LMI students that attend the school district.

Community Development Services

During the evaluation period, six different employees and Board of Directors provided financial expertise or technical assistance to nine different qualified CD organizations. The services provided mostly benefitted economic development, but also affordable housing and community services for LMI. CD services to community organizations or programs have decreased throughout the review period and are down when compared to the performance at the previous evaluation. At the previous evaluation, RCB assisted 12 different qualified CD organizations with CD services; thus, performance trended down overall since the last evaluation.

Below are notable examples of CD services provided in the AA over the evaluation period:

- A senior officer of the bank sits as a board member of a non-profit organization that rehabilitates existing properties and builds new affordable rental housing projects within the AA, a critical CD need of the AA. Its mission is to sponsor, support, and develop low-income housing in the AA. The organization works to provide quality, safe, and affordable housing for LMI families and seniors.
- An employee of the bank sits as a member of the loan committee for a non-profit economic development organization to provide funding for small businesses within the AA, an identified credit need of the AA. The organization also works to improve economic conditions within Humboldt County.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

APPENDICES

INTERMEDIATE SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

Community Development Test

The Community Development Test considers the following criteria:

- 1) The number and amount of community development loans;
- 2) The number and amount of qualified investments;
- 3) The extent to which the bank provides community development services; and
- 4) The bank's responsiveness through such activities to community development lending, investment, and service needs.

GLOSSARY

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

Area Median Income: The median family income for the 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 delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Institution CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Institution CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that:

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose institution:
 - (i) Has not been reported or collected by the institution or an affiliate for consideration in the institution's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
 - (ii) Benefits the institution's assessment area(s) or a broader statewide or regional area including the institution's assessment area(s).

Community Development Service: A service that:

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the institution's retail banking services under § 345.24(d).

Consumer Loan(s): A loan(s) 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. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area.

Performance under applicable tests is often analyzed using only quantitative factors (e.g, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as **non-MSA**): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Investment Company (SBIC): SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area’s population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

Upper-Income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.