

# **PUBLIC DISCLOSURE**

June 3, 1996

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**San Benito Bank**

12-06-0511-0000

**300 Tres Pinos Road  
Hollister, California 95023**

**FEDERAL RESERVE BANK OF SAN FRANCISCO  
101 MARKET STREET  
SAN FRANCISCO, CALIFORNIA 94105**

**NOTE:** This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **San Benito Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of June 3, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

### **INSTITUTION'S CRA RATING:**

This institution's overall CRA (Community Reinvestment Act) performance is rated **Outstanding** based upon a review of its provision of credit to its community. Evidence was found during the examination that management had taken an affirmative role in identifying and meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>San Benito Bank</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans	X		
Response to Complaints	No complaints had been received since the prior examination.		

## **DESCRIPTION OF INSTITUTION:**

San Benito Bank is a wholly-owned institution that operates within San Benito County, California. It has three facilities with the main office and one branch office located in Hollister and one branch located in San Juan Bautista. During a 12-month period ending March 31, 1996, the bank increased its loan portfolio at a modest rate of 1.2%, from \$51.1 million to \$52.1 million. During this same period, bank deposits grew at a much quicker rate of 17.4%, increasing from \$79.3 million to \$93.1 million. This activity resulted in the bank having total assets of \$105 million as of March 31, 1996. According to bank management, the primary business focus of the bank is small farm and small business lending. A review of the bank's portfolio as of March 31, 1996, indicates the following distribution:

- Commercial loans = 23.8%
- Real Estate/ Land Development loans = 16.8%
- Farm & Agricultural related lending = 14.1%
- Real Estate loans (revolving and primary and junior lien loans) = 12.6%
- Consumer credit cards = 8.6%
- Leases = 8.0%
- Other = 16.10%

This distribution reveals that not only is San Benito Bank a business lender, but is also successful in extending credit through a variety of loan products. The bank offers a wide array of financial products for an institution of its size and resources. These products include construction loans for single-family residential properties, consumer personal loans, indirect financing through automobile dealerships, overdraft lines of credit, credit cards, home-equity loans, small farm loans, small business loans and Small Business Administration loans. During the review period, the bank was not operating under any impediments or other constraints which would affect its ability to meet its responsibilities under the Community Reinvestment Act.

## **DESCRIPTION OF *San Benito County*:**

San Benito Bank has selected all of San Benito County as its assessment area. San Benito County covers approximately 1,000 square miles and is a rural community with an agriculturally based economy. The county is sparsely populated but growing rapidly. The population statistics compiled by the county indicate that as of 1995 the population was 43,000, an increase of 17% from the 1990 census data which indicates a population of 36,697. According to information provided by the county, the increase in population growth is a result of a significant influx of residents who reside within the county but work in one of the surrounding counties.

There are a total of 9,204 families in the assessment area. In terms of income distribution, the households are predominantly upper-income (56%), followed by middle-income (19%), moderate-income (14%), low-income (11%) and families below the poverty line (7%). Upper-income for the assessment area is \$47,564 or more,

middle-income is \$31,709 to \$47,563 moderate-income is \$19,819 to \$31,708 and low-income is less than \$19,819. The median family income for San Benito County is \$39,637.

According to the information provided by community contacts, there are many opportunities for small business and small farming lending within the county. The majority of these opportunities are in Hollister, which is the business center and the only incorporated town with a population of over 2,000.

The Economic Development Corporation of San Benito County is a county sponsored organization chartered to promote economic growth in the community. According to a study provided by this corporation indicates that the economic base of the community is comprised of very small businesses. This study found that 53% of all businesses have less than five employees and 89% of all businesses have less than 50 employees. Similarly, 74% of all businesses within Hollister have annual revenues of less than \$1 million. The majority of employment is in the manufacturing/food processing industry which accounts for 42% of all employees working within Hollister. Service related industries are second accounting for 20.8% and retail trade is third accounting for 17.4%.

Additionally, according to this study, small business and small farm lending opportunities should increase. San Benito County is the second fastest growing county in California in taxable sales, retail sales, and total personal income. However, the study also found that the county has an unemployment rate (11.8%) that is significantly higher than the state average (6.5%).

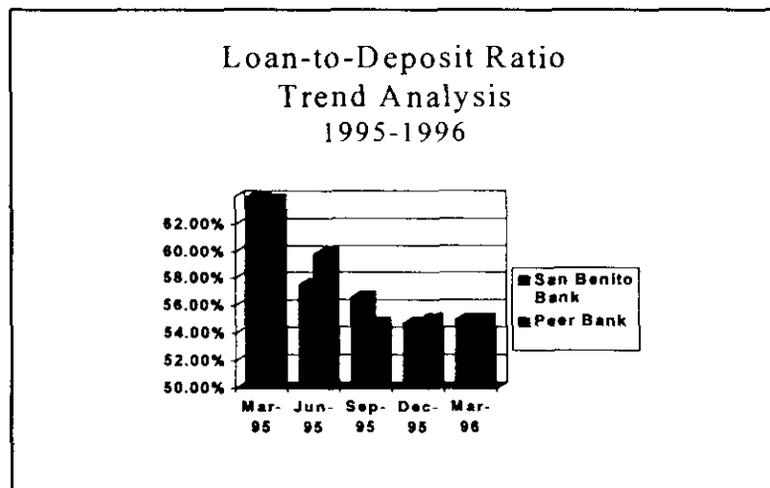
## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

### **LOAN-TO-DEPOSIT RATIO:**

For the period under review, the bank's average loan-to-deposit ratio was 58%. The chart below lists the range of values on a quarterly basis. During these quarters, the loan-to-deposit ratio steadily decreased as a result of increases in deposits without a corresponding increase in lending volume.

<u>Quarter Ending</u>	<u>Ratio</u>
March 1995	64%
June 1995	58%
September 1995	57%
December 1995	55%
March 1996	55%

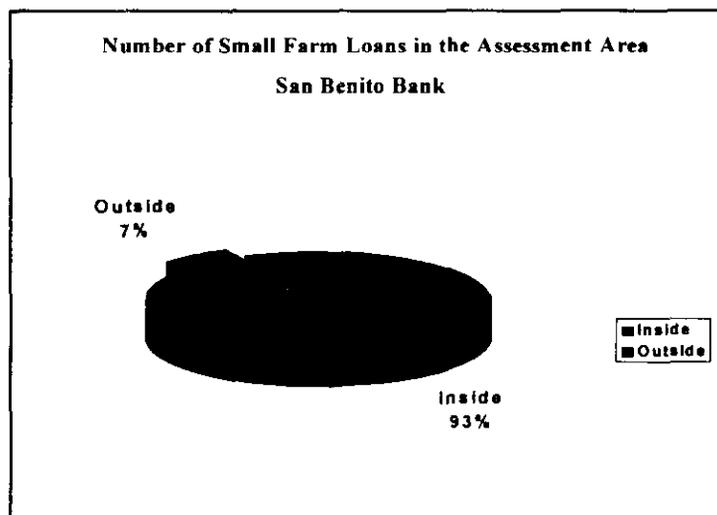
A comparison of these ratio's with those of a similarly situated local community bank, with assets in the range of \$175 million, indicated that San Benito Bank's ratio is very similar.

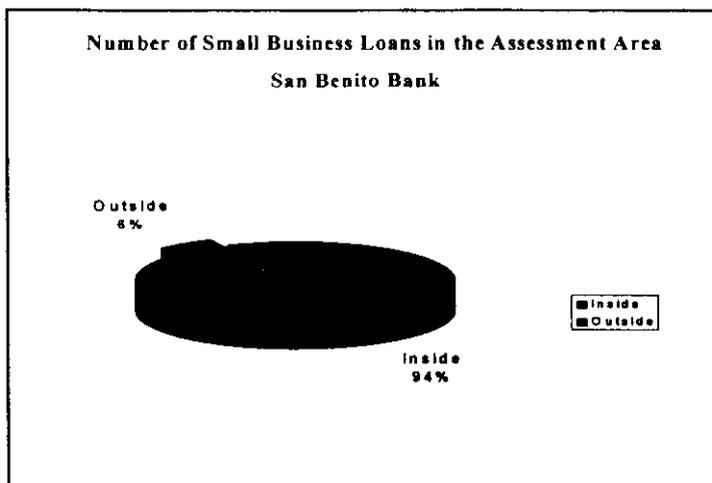


In view of the bank's rapid growth rate in deposits and its ability to lend through a variety of loan products, the loan-to-deposit ratio is considered reasonable.

**LENDING IN ASSESSMENT AREA:**

The examiners performed a geographic analysis of the bank's credit extensions using a statistical sample of small farm and small business loans extended during the review period. As demonstrated by the following graphs, the sampling found that in terms of number of loans, 93% (28 out of 30) of the bank's small farms were within the assessment area as were 94% (135 out of 143) of the small business loans. An analysis of the bank's loans to small farms and small businesses in terms of dollar amounts reflected the analysis above, with 92% (\$8,168,816 out of \$8,922,469) of the bank's total amount extended to small business and 97% (\$2,802,020 out of \$2,887,020) to small farms within its assessment area.

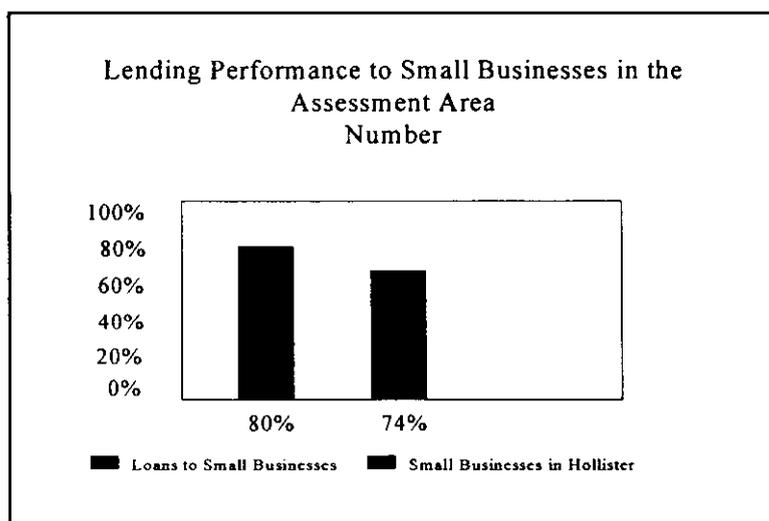




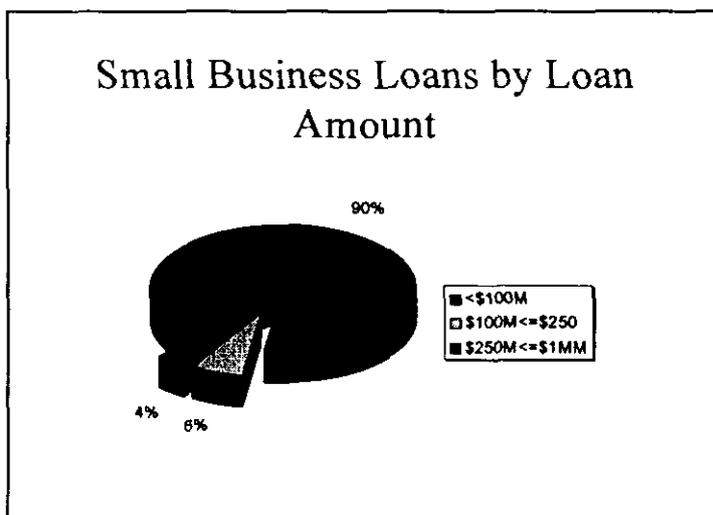
These results are similar to the bank's own analysis of its lending within the assessment area and indicate that the bank's record of lending within the assessment area as compared to outside the assessment area is excellent.

**LENDING BY BORROWER INCOME AND BY BUSINESS REVENUE:**

The examiners performed an analysis of the type of business borrowers to which the bank is extending credit by reviewing the business revenues of such borrowers. This analysis revealed that in terms of number of loans, 80 percent (100 out of 125) of the bank's small business loans are to borrowers with less than \$1 million in annual revenues (small businesses). As can be seen by the following graph, 74 percent of all businesses in Hollister have annual revenues under \$1 million. Furthermore, a majority of businesses in the assessment area have fewer than 50 employees.



The analysis also found that, in terms of number of loans, 88 percent (22 out of 25 loans) of the small farm loans made by the bank were to borrowers with less than \$500,000 in yearly revenue. The following graph indicates that 90 percent of the bank's business loans were below \$100,000 and 76 percent of the farm loans were below \$100,000.



These statistics clearly indicate the bank's record of lending to small businesses and small farms very favorably compares to the economic composition of San Benito County and illustrates that the bank has made excellent penetration of various size businesses and farms within the assessment area.

As previously mentioned above, a review of the bank' loan portfolio found that it offers and extends a wide array of loan products to serve the financial needs of those seeking small business and small farm loans. In addition, the bank is active in extending Small Business Administration (SBA) loans. During the review period, San Benito Bank funded a total of 18 SBA loans totalling \$820,000 with an average loan amount of \$46,000.

#### **GEOGRAPHIC DISTRIBUTION OF LOANS:**

Although the following tables suggest a disproportionate concentration of small business and small farm loans to upper-income BNAs which comprise only 22 percent of the bank's assessment area, it should be noted that the two-upper income BNAs are rural agricultural areas with a high density of small farms and small agricultural businesses. Conversely, the middle-income and moderate-income BNAs are primarily residential and, therefore, would not reflect a significant number of small business and farm loans. Finally, the assessment area contains one BNA which is low-income which is very sparsely populated and not included in the tables. In view of the high demand for small business and smalls farm loans in the assessment area's upper-income BNAs, the review found an excellent dispersion of these loans throughout the assessment area.

DISTRIBUTION OF LOANS IN ASSESSMENT BY NUMBER			
Block Number Areas Income Level	Small Bus. Loans	Small Farms Loans	BNA's Percent of Assessment Area
Upper-Income BNA:	45% (62)	75% (21)	22% (2)
Middle-Income BNA:	53% (72)	18% (5)	56% (5)
Moderate-Income BNA:	2% (3)	7% (2)	11% (1)

Comparing the total dollar amount of the loans indicated similar results.

DISTRIBUTION OF LOANS IN ASSESSMENT BY DOLLAR AMOUNT			
Block Number Areas Income Level	Small Bus. Loans	Small Farms Loans	BNA's Percent of Assessment Area
Upper-Income BNA:	61% (\$4,982,166)	72% (\$1,971,080)	22% (2)
Middle-Income BNA:	38% (\$3,129,111)	20% (\$550,000)	56% (5)
Moderate-Income BNA:	1% (\$57,600)	8% (\$216,690)	11% (1)

A further review was made of the distribution of loans throughout all of the BNAs and found that the loans were well dispersed across each BNA.

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

The bank is in general compliance with the substantive provisions of anti-discrimination laws and regulations such as the Fair Housing Act and the Equal Credit Opportunity Act. A review of the bank's loan distribution and credit evaluation procedures indicates that no applicants are discouraged from requesting the types of credit offered by the bank. The bank has a sufficient training program for its staff. The policies, procedures and training programs developed by the bank adequately support non-discrimination in lending.