

PUBLIC DISCLOSURE

March 9, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Santa Lucia Bank
DSBB # 12-06-0048-0000
7480 El Camino Real
Atascadero, CA 93423**

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

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

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GENERAL INFORMATION

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

*This document is an evaluation of the Community Reinvestment Act (CRA) performance for **Santa Lucia Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of **March 9, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to CFR Part 228.*

Institution's CRA Rating: This institution is rated satisfactory.

This overall satisfactory rating was based upon the bank's record of meeting the credit needs of its community. Santa Lucia Bank demonstrates its commitment to the community by identifying credit needs of local businesses and fulfilling those needs in neighborhoods throughout its assessment area, including moderate-income areas. The bank is lending within its assessment area in a manner that is consistent with its resources and capabilities.

DESCRIPTION OF INSTITUTION:

As of January 30, 1997, Santa Lucia Bank has assets of \$84 million. The main branch is located in the rural town of Atascadero, California with branches located in Paso Robles and Arroyo Grande. The bank focuses on meeting the needs of the small business community both with deposit and loan products. Consumer loan products are offered, but they account for a small portion of the bank's loan portfolio. The bank extends commercial and residential construction loans, but does not offer residential mortgage loans. A breakdown of the bank's loan portfolio as of the January 30, 1997 Consolidated Report of Condition shows the following distribution by product type:

Loan Portfolio Breakdown by Loan Type

Loan Type	Percentage of Loan Portfolio
Small Business/Commercial Loans	55%
Consumer Loans	9%
Construction Loans	17%
All Other Loan Products	19%

The bank has local competition for all loan and deposit products from branches of large statewide financial institutions as well as community banks. The bank does not have a branch in the City of San Luis Obispo where many competing banks are located. Branches are located in smaller cities in San Luis Obispo County, which do not have large concentrations of financial institutions.

The bank has no financial constraints or legal impediments that would prevent lending activity throughout its assessment area.

DESCRIPTION OF ASSESSMENT AREA:

The bank's assessment area consists of approximately 75% of San Luis Obispo County, excluding areas that are not easily accessible due to geography or their distance from bank branches. The assessment area is very rural in nature, and includes large tracts of vineyards and grazing land. The Pacific Ocean makes up the western edge of the assessment area with the Temblor Mountain Range to the East. Both the northern and southern borders are comprised of large farms and cattle ranches.

Population statistics show that as of January 1, 1996, San Luis Obispo County had a total population of 232,400. Most of the population lives in the unincorporated areas of the county (99,100); with the City of San Luis Obispo being the largest population center at 41,950¹. The assessment area is composed of 12 middle-income census tracts, 4 moderate income and 2 upper-income census tracts. There are no low-income census tracts within the county.

¹ San Luis Obispo County Chamber of Commerce Research Department , Economic Profile, January 1997

Income Level of Census Tracts and Families Within the Assessment Area

	Low Income	Moderate Income	Middle Income	Upper Income
Number of Census Tracts	0	4	12	2
% of total Tracts	0%	22%	67%	11%
Number of Families	6,326	6,583	8,841	13,239
% of Families	18%	19%	25%	38%

Low- and moderate-income families are distributed throughout the assessment area with a higher concentration in moderate- and middle-income census tracts. Twenty-three percent of low-income families live in moderate-income tracts, followed by 74% in middle-income tracts and 3% in upper-income tracts. The largest concentration (75%) of moderate-income families is also in middle-income census tracts. 20% of moderate-income families reside in moderate-income tracts and 5% are located in upper-income census tracts. These demographic patterns indicate that within census tracts designated as middle-income, there are concentrations of low- and moderate-income families residing alongside upper- and middle-income families.

The coastal portions of the assessment area attract many tourists and small businesses have been established to service the tourist market. There are few large, industrial businesses located in San Luis Obispo County primarily due to its rural location and limited workforce, and thereby, lessening the opportunities for big business lending and forcing local banks to concentrate in the small business market. San Luis Obispo County has a strong, stable economy as demonstrated by a 2%² economic growth factor in 1997. This healthy economy has allowed for business growth and expansion, creating opportunities for local financial institutions to lend and invest within the community.

Agriculture and tourism are large contributors to the local economy. Large employers in San Luis Obispo County include CalPoly University, City and County governments, hospitals and healthcare, and PG&E (Diablo Canyon). The service industries employ 24% of the county workforce, with retail trade at 21% and the government at 18%. The local unemployment rate is 4.4%³.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

To evaluate Santa Lucia Bank’s performance under the Community Reinvestment Act, examiners reviewed the bank based upon four of the five performance criteria. These include: the bank’s lending inside and outside its assessment area (Lending in Assessment Area), the distribution of lending to businesses of different sizes and borrowers with different income

² San Luis Obispo County Chamber of Commerce Research Department , Economic Profile, January 1997

³ San Luis Obispo County Telegraph-Tribune, “Jobless Rate in County Tumbles,” May 19, 1997

levels (Lending by Borrower Income and Business Revenue), the census tracts or geographic areas within the assessment area where the bank is lending (Geographic Distribution of Loans), and the bank's loan volume in comparison to its deposits (Loan-to-Deposit Ratio). The bank's performance of responsiveness to consumer complaints was not evaluated because no CRA related complaints have been received by the bank since the previous examination.

Since the bank's focus is meeting the needs of small businesses, small business loans were used as the basis for this CRA evaluation. Consumer loans were also evaluated, but were only used as a secondary measure of performance. Examiners reviewed all 217 small business and 98 consumer loans extended since July 1, 1997 for this analysis. These loans were first reviewed to determine the bank's volume of lending inside of its assessment area. Only those loans extended inside of the assessment area were included in the evaluation of the two remaining performance criteria. By utilizing only those loans extended inside of the bank's assessment area, examiners evaluated the bank's record of meeting the credit needs of its designated community.

LENDING IN ASSESSMENT AREA:

Santa Lucia Bank's distribution of loans in and out of their assessment area exceeds standards for satisfactory performance. An analysis of loans extended inside and outside the bank's chosen assessment area shows that the bank is concentrating its lending activity within its assessment area as depicted in the following chart:

Loans Extended Inside and Outside the Assessment Area by Type

Loan Type	% Inside (#)	% Inside (\$)	% Outside (#)	% Outside (\$)
Small Business	86%	82%	14%	18%
Consumer	96%	97%	4%	3%
Total	89%	84%	11%	16%

The bank extended 186 of the 217 small business loans reviewed within its assessment area. Of the remaining 31 small business loans extended outside the assessment area, 27 are within San Luis Obispo County and are within close proximity of the assessment area. The bank chose not to include the entire county in its assessment area due to the size of the county, geographical barriers, and the location of their branches. If the entire county had been selected, 98% of the number of loans and 99% by dollar volume would be inside.

Consumer loans show a similar distribution, with 94 of the 98 consumer loans extended inside of the assessment area. Of the four consumer loans extended outside of the assessment area, two are still located within San Luis Obispo County. Using the small business methodology of examining loans made outside of the assessment area, but within the county, 98% of the number of loans and 98% by dollar volume were extended in San Luis Obispo County.

Based on the geographic nature of the assessment area, examiners anticipated a large percentage of loans to be extended inside the assessment area. San Luis Obispo County is largely rural, with mountain ranges separating it from Kern County to the east. The Pacific Ocean is on the west side of the county and vast expanses of open farmland separate the county from other population centers on the northern and southern borders. Access is limited to Highways 1 and 101 running north and south and highways 41 and 46 east to west.

LENDING BY BORROWER INCOME AND BY BUSINESS REVENUE:

Santa Lucia Bank’s distribution of loans to businesses of different sizes and to borrowers of different income levels meets standards for satisfactory performance.

Santa Lucia Bank’s objective is to serve the needs of the small business borrower. One hundred thirty nine (75%) of the 186 small business loans extended by the bank were to businesses with gross annual revenues of \$1 million or less. Examiners anticipated this high percentage of loans to small businesses because community contacts indicated that there are a small number of large businesses in San Luis Obispo County. Community contacts also identified the need for small business loans to small businesses in amounts of \$100,000 or less. Of the 139 loans extended to small businesses by Santa Lucia Bank, 87% were extended in amounts less than \$100,000 with an additional 8% extended between \$101,000 - \$250,000. As demonstrated in the following chart, the bank is helping to meet the credit needs of all sizes of businesses within its community, including those smaller dollar amount credit needs identified by community contacts.

Business Purpose Loans by Loan Amount Category

	<= \$100K		\$101K – \$250K		\$250K - \$1M		Total	
Loans to Small Businesses	121	87%	11	8%	7	5%	139	100%
Loans to Large Businesses	21	45%	18	38%	8	17%	47	100%
Total Loans	142	76%	29	16%	15	9%	186	100%

A review of consumer loans revealed that the bank extended 45 (48%) of all consumer loans to upper- income borrowers. This was followed by 17 (18%) to moderate-income, 16(17%) to middle-income and 16(17%) to lower income. These percentages are comparable to the percentage of families within the assessment area at the different income levels. Within the assessment area, 38% of the population are considered upper- income, 25% middle-income, 19% moderate-income and 18% low-income. Because consumer loans are offered only as an accommodation and because of the close similarity in the distribution of loans to low- and moderate-income families to families residing within the assessment area, this lending record is considered reasonable.

Distribution of Consumer Loans by Income Level of Family

	Low Income		Moderate Income		Middle Income		Upper Income		Total	
Number of Loans	16	17%	17	18%	16	17%	45	48%	94	100%
Dollar Amount of Loans (in \$000's)	\$615	19%	\$267	8%	\$146	4%	\$2,248	69%	\$3,276	100%
Families in Assessment Area	6,326	18%	6,583	19%	8,841	25%	13,239	38%	34,989	100%

Taking into account the bank's size, location and small business focus the concentration of small business loans along with the large percentage of loans in amounts of \$100,000 or less shows that the bank is meeting the needs of small businesses within its assessment area. The number of consumer loans extended to low- and moderate-income individuals further demonstrates that the bank is meeting the credit needs of the local community.

GEOGRAPHIC DISTRIBUTION OF LOANS:

Santa Lucia Bank's distribution of loans in census tracts of different income levels meets standards for satisfactory performance.

Santa Lucia Bank's assessment area is largely comprised of middle income census tracts. As of the 1990 Census, the assessment area's distribution of census tracts was as follows: 0% Low, 22% Moderate (4), 67% Middle (12), and 11% Upper (2). The moderate-income census tracts are spread throughout the county with the largest tract located in the City of Paso Robles. There are two moderate-income census tracts in Oceano and one in Atascadero.

Loans Extended by Income Level of Census Tract

	Low Income		Moderate Income		Middle Income		Upper Income		Total	
Commercial Loans	0	0%	22	10%	161	86%	3	4%	214	100%
Consumer Loans	0	0%	4	4%	87	93%	3	3%	94	100%

The bank has branches in close proximity to all of the moderate-income areas. In Paso Robles, the branch is located within the moderate-income census tract, the branch in Atascadero is within one mile and the Arroyo Grande branch is within five miles of the moderate-income areas.

Loans Extended in Moderate Income Census Tracts

Tract	City	Small Business		Consumer	
		#	\$	#	\$
101.00	Paso Robles	21	\$1,107	3	\$50
121.00	Grover City	1	\$50	0	0
122.00	Oceano	0	0	1	\$6
128.00	Atascadero	0	0	0	0

Loans to small businesses are concentrated in middle-income tracts, followed by moderate, then upper-income areas. The bank has extended a significant percentage of loans in the moderate-income census tract in Paso Robles, but has made few or no loans in the other moderate-income tracts.

Ninety-one percent of all small business loans extended in moderate-income tracts are located in the City of Paso Robles, which has the largest concentration of businesses in comparison to the county's other moderate-income areas.

The other moderate-income census tracts have few small businesses and are chiefly residential areas. Based on the examiner's driving tours, the City of Grover Beach has a business corridor along Grand Avenue. Along this avenue, there are many small businesses, restaurants and small motels. In addition, there is a large Vons shopping center on Grand Avenue just east of the moderate-income census tract with national chain merchants and restaurants. The Grand Avenue business district also has a concentration of financial institutions. Mid-State Bank, Bank of Santa Maria, and Bank of America have branches located along this business corridor, indicating that there is a variety of local credit sources for small business loans.

The City of Oceano has limited opportunities for small business lending. Oceano has a small business district that includes small grocery stores, a barbershop, restaurants and RV/trailer parks. There are no financial institutions located in Oceano. Both businesses and consumers must commute to Grover City or Arroyo Grande to conduct banking transaction, which are approximately three and five miles away.

The moderate-income census tract in Atascadero is mainly rural-residential. This census tract also includes a sewage treatment plant and is divided by north/south running railroad tracts and the Salinas River. The southern end of the census tract includes multi-family housing and mobile home parks. There are few businesses in the area, with the closest business district beginning north of the census tract at Santa Rosa Avenue.

Given the bank's business strategy, branch locations, small number of moderate-income census tracts and the opportunities for commercial lending within those tracts, it is reasonable that the bank extended a smaller percentage of commercial loans within moderate-income areas. The

bank has extended a significant number of commercial loans in the one moderate-income census tract that has a concentration of small businesses, showing that they are meeting the credit needs of all areas of their community.

Small Business Loans by Income Level of Census Tract

In \$000s	Low Income	Moderate Income	Middle Income	Upper Income	Total
Total Number of Loans	0	22	161	3	187
Percentage of Total Number	0	12%	87%	2%	100%
Dollar Amount of Loans (in \$000s)	0	\$1,157	\$15,960	\$136	\$17,337
Percentage of Dollar Amount	0	7%	92%	1%	100%
Percentage of Census Tracts	0%	22%	67%	11%	100%

Consumer loans show a similar distribution, but with an even higher concentration in middle income census tracts. The bank extends consumer loans on an exception basis, usually to existing business customers and the employees of their business customers. With the exception of construction financing, the bank does not market consumer loans products.

Consumer Loans by Income Level of Census Tract

	Low Income	Mod. Income	Mid. Income	Upper Income	Total
Total Number of Loans	0	4	87	2	93
Percentage of Total Number	0	4%	94%	2%	100%
\$ Amount of Loans (in \$000s)	0	\$56	\$2,651	\$100	\$2,807
Percentage of \$	0	2%	94%	4%	100%
Percentage of Census Tracts	0%	22%	67%	11%	100%

A review of declined loan applications revealed that some declined applicants resided within the moderate-income tracts; however, these borrowers were declined based upon sound credit underwriting standards. There is no indication that the bank discourages applications from any of the census tracts located within its assessment area. Based upon the bank's strategy of serving the needs of small businesses and offering consumer products on an accommodation basis only, this distribution of consumer lending is reasonable.

Although there are geographic areas where the bank has had little or no loan activity, the bank is not expected to make loans in every census tract included in its assessment area. Based upon the lending opportunities available to the bank, its record of lending within census tracts of different income levels is reasonable.

LOAN-TO-DEPOSIT RATIO:

Santa Lucia Bank’s loan-to-deposit ratio meets standards for satisfactory performance.

This analysis is performed to determine the bank’s level of lending activity in comparison to its deposit base. The bank’s net loans are measured against its total deposits over time with the result being evaluated within the bank’s performance context.

Two peer banks were selected for this institution based on their asset size, number of branches, business focus and geographic location. A comparison of the average loan-to-deposit ratios for these institutions shows that they have similar ratios, with Santa Lucia Bank having the highest ratio at 66%, Peer Bank 1 at 65% and Peer Bank 2 at 59%. The national and state peers were not used in this comparison because similarly situated banks in the local community were available.

Loan-to-Deposit Comparison

	Santa Lucia Bank	Peer 1	Peer 2
Asset Size	\$83,351	\$93,296	\$55,302
Net Loans	\$49,826	\$55,088	\$29,781
Total Deposits	\$75,264	\$84,518	\$50,465
LTD RATIO	66.20%	65.18%	59.01%

Given the environment of the bank’s assessment area, resources and capabilities, the favorable comparison of Santa Lucia Bank’s loan-to-deposit ratio against that of its peers demonstrates that the bank is committed to extending loans to help meet the credit needs of its community.

RESPONSE TO COMPLAINTS:

Since the previous examination, the bank has not received any complaints relating to its CRA performance. Therefore, this bank’s performance under this criterion could not be evaluated.

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 this examination that would indicate that Santa Lucia Bank engages in any type of discrimination or discouragement in its lending activities.