

AB
CD
EF
GH
IJ

^^^^^^Comptroller^of^the^Currency
^^^^^^Administrator^of^National^Banks

Comptroller of the Currency
50 Fremont Street
Suite 3900
San Francisco, California 94105

PUBLIC DISCLOSURE

**COMMUNITY REINVESTMENT ACT PERFORMANCE
EVALUATION**

September 16, 1996

First National Bank of Central California
Charter #18182
307 Main Street
Salinas, California 93901

NOTE: This evaluation is not, nor should it be construed as, 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

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **First National Bank of Central California (FNB)** prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of September 16, 1996. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

COMMUNITY AND BANK PROFILE

COMMUNITY PROFILE:

First National Bank of Central California (**FNB**) defines census tracts within Monterey and Santa Cruz counties as its local community. This covers the contiguous areas in the cities of Monterey, Salinas, Seaside, Marina, Sand City, Del Rey Oaks, Carmel, Pacific Grove, Pebble Beach, Watsonville, Castroville, Freedom and the unincorporated areas of Carmel Valley, Pajaro Valley and Prunedale. The community is both economically and culturally diverse.

Monterey County’s economy in 1995 is in a state of stable transition. The overall long term outlook for the county is exceptionally positive with an in-migration of high paying research and education jobs into the Monterey Peninsula. Continued growth in the agriculture sector is also expected. While agriculture remains the leading industry in the community, especially in the cities of Salinas, Watsonville and Castroville, commercial and industrial activities show improvement from the idle period in 1994. With the opening of the California State University - Monterey Bay, accelerated demand for new apartment complexes is expected for the new students and faculty. Construction activities have started in Salinas for a new 650,000 square feet retail shopping center and WalMart.

Monterey and Santa Cruz counties are culturally diverse as well. Based on the 1990 census, the ethnic mix is as follows:

| RACE | MONTEREY CO. | SANTA CRUZ CO. |
|--------------------------------|---------------------|-----------------------|
| American Indian/Alaskan Native | 1% | 1% |
| Asian or Pacific Islander | 8% | 4% |
| Black | 6% | 1% |
| White | 66% | 79% |
| Other Race | 18% | 15% |

Of each county’s population, 29% is of Hispanic Origin. Fifteen of the 69 census tracts in Monterey County are low- and moderate-income tracts while seven of 44 census tracts in Santa Cruz County are in the same category. Most of the population (70% or higher for Monterey and 54% in Santa Cruz) in these tracts is similarly of Hispanic origin.

COMMUNITY AND BANK PROFILE

COMMUNITY PROFILE (Continued)

The following table lists a breakdown of the bank's community by census tract income level. This information is provided by the U.S. Census Bureau.

| Tract Income Level | # | % |
|----------------------------|-----------|-------------|
| Low/Moderate Income | 21 | 25% |
| Middle Income | 41 | 50% |
| Upper Income | 21 | 25% |
| Total | 83 | 100% |

The 1990 Business Demographic Data shows there are 20,120 farm and nonfarm businesses in the bank's delineated community. Of this number, 18,543 or 92%, is considered small business (defined as businesses with revenues of \$1 million or less).

BANK PROFILE:

Pacific Capital Bancorp is the holding company for FNB, which has four full-service branches in Watsonville, Salinas, Monterey and Carmel. The bank has another branch at the Administration Center in Salinas designed mainly for business customers. The bank is primarily a commercial bank but also offers consumer loans. As of June 30, 1996, FNB's assets stood at \$387MM with \$240MM in total loans and leases. On July 19, 1996, the bank announced the signing of a definitive agreement for the purchase of South Valley Bancorporation, holding company for South Valley National Bank. This one-bank holding company serves the Santa Clara and San Benito counties.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

Based on the findings presented below, this institution is rated: "**Outstanding Record of Meeting Community Credit Needs.**"

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS:

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

- ▶ The bank maintains ongoing and meaningful contacts with a large range of groups including public officials, private groups, and individuals to ascertain credit needs and promote its credit and deposit products and services.

The bank ascertains the credit needs of its community both formally and informally. The Board of Directors, officers, and employees maintain ongoing contacts with a large range of groups through bank-sponsored workshops, and through membership in and attendance at various civic, cultural, religious and governmental functions or meetings. Many of these organizations promote small business and affordable housing. Also, the Bank's officer calling program provides additional outreach to business owners and professionals, including potential start-up businesses.

Through their ascertainment efforts, FNB determined that affordable housing is the community's most pressing credit need. Other identified credit needs include small business, motor vehicle, and home improvement loans. Our dialogue with community groups confirmed the bank's assessment. The community groups also stated the need for flexible start-up loans for small businesses, and educational loans.

The bank's products are reasonably suited to the identified credit needs of the delineated community. Management maintains a strong business focus and has been highly responsive to the needs of its small business customers. FNB offers direct business-purpose loans. It also originates loans under various programs guaranteed by the Small Business Administration (SBA) and the California Coastal Rural Development Corporation. The bank consistently meets the identified consumer credit needs through programs like indirect auto loans, mortgage broker activities, and construction loans to builders of affordable housing.

DISCUSSION OF INSTITUTION'S PERFORMANCE (Continued)

Assessment Factor A - (Continued)

Management actively meets with local City and County officials to explore community and economic development projects. The following are examples of these contacts:

- ▶ Meeting with the El Pajaro Community Development Council to work on a small business incubator program;
- ▶ Meeting with the Watsonville Advisory Board to discuss business development and improved housing for its low income residents;
- ▶ Membership on the Financing Panel at a conference set up by The Economic Development Corporation of Monterey County, Inc. in relation with the closure of Fort Ord; and,
- ▶ Presentation at the Marina Municipal Airport on banking services available to business tenants who took over the use of the airport area at Fort Ord.

Assessment Factor C - **The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.**

- ▶ The Board routinely considers aspects of CRA in its overall planning.

The Board reviews and adopts an annual CRA policy and statement. The statement has been expanded and meets all the technical requirements of the CRA. The strategic plan includes a general CRA policy and a comprehensive marketing strategy addressing CRA initiatives. The Board also adopted measurable goals related to CRA. The full Board of Directors reviews a list of CRA compliance activities each quarter. They also review an annual analysis of loan applications. The quarterly reports highlight ascertainment and advertising efforts, small business loan production, community involvement, and special loan projects.

The bank has explored alternative ways to help address the community's most pressing credit need besides direct lending. For example, at the First Time Homebuyer seminars, bank management offered the FANNIE MAE low income mortgage program through its mortgage broker.

DISCUSSION OF INSTITUTION'S PERFORMANCE (Continued)

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED:

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

- ▶ The Board of Directors of FNB has approved and implemented a comprehensive marketing program that informs all segments of its community of the products and services the bank offers.

The bank's strategic plan includes sound marketing objectives that address relevant CRA requirements. The bank uses print, radio, television media, direct marketing and outreach activities to reach its community, including low- and moderate-income areas.

Advertisements are both image-oriented and product specific, emphasizing FNB's image as a locally owned community bank. The product specific advertisements promote mainly small business loans (SBA programs), construction loans, and certificates of deposit.

The bank's print media advertisements are varied and include bilingual publications and a church bulletin located in a low- and moderate-income census tract with a high multi-cultural congregation. The bank also conducted two First Time Homebuyer Seminars in 1995 in Salinas and Watsonville. At these seminars, the bank discussed the availability of the FANNIE MAE low income mortgage program through its mortgage broker. Further, brochures were made available in both English and Spanish and a bilingual realtor was on hand to answer any questions.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

- ▶ FNB demonstrates a good record of addressing the credit needs of its community with exceptional responsiveness to the needs of its small business community. A substantial majority of its loans are within its delineated community.

FNB, by philosophy and policy, considers itself a business-oriented bank and has been successful in meeting the small business credit needs of its community. While consumer lending is not its primary focus, FNB has made significant efforts to address this identified community credit need.

DISCUSSION OF INSTITUTION'S PERFORMANCE (Continued)

Assessment Factor I - (Continued)

Approximately 97% of the bank's loan originations in 1995 through July 1996 are within the delineated area.

In 1995, 65% of the number of loans originated were made to small businesses. For the first six months of 1996, 60% of the total loan production was made to small businesses. The following table illustrates the bank's small business loan origination for 1995 through June 30, 1996..

| Loan Originations | | | | |
|--------------------------|-------------|-------------------|-------------|-------------------|
| | 1995 | | 1996 | |
| Loan Type: | # | \$ (000's) | # | \$ (000's) |
| Small Business/Farm | 255 | 59,650 | 235 | 30,243 |
| Consumer | 609 | 10,770 | 222 | 10,778 |

This exceptional responsiveness to the needs of the small business community is also reflected in the bank's willingness to provide "micro" business loans under \$50M. In 1995, FNB financed 143 micro business loans amounting to \$6,093M. These loans represented 38% of the number and 22% of the dollar volume of total business loan activity. Micro business loan activity for year-to-date June 30, 1996 were 49% and 10% of the total number and dollar amount of originations, respectively.

FNB also addressed the need for consumer loans. In 1995, the bank made 609 consumer loans totalling \$10,770M. For the first six months of 1996, 222 consumer loans were made for a total of \$10,778M.

Since FNB is primarily a business bank, it is not a significant participant in the residential mortgage market. However, management has taken steps to address the community's most pressing credit need, affordable housing, by offering a mortgage broker service. The following represents the bank's mortgage activity over the previous three-years:

DISCUSSION OF INSTITUTION'S PERFORMANCE (Continued)

Assessment Factor I - (Continued)

| BROKERED MORTGAGE LOANS | | |
|--------------------------------|----------|---------------------|
| YEAR | # | \$(millions) |
| 1994 | 42 | 8.3 |
| 1995 | 35 | 6.5 |
| 1996 (six months) | 35 | 7.8 |

Assessment Factor J - **The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.**

- ▶ FNB shows a high level of participation in government insured, guaranteed or subsidized business loan programs.

The bank has actively participated in the SBA guarantee program for 13 years and currently holds Certified Lender Status. It is the third largest SBA lender in its assessment area. The bank promotes various SBA programs and was one of the first lenders on the Central Coast to participate in the SBA Women's Prequalified Program. In 1995, the bank booked 28 SBA loans totaling \$3.7 million. For the first eight months of 1996, the bank booked 36 SBA loans totaling \$8.4 million. As of August 31, 1996, the bank had a total of \$20 million in SBA loans on the books. This figure represented 8% of the total outstanding loan portfolio.

Other worthwhile programs the bank participates in are sponsored by the California Coastal Rural Development Corporation (CCRDC) and the Rural Development Corporation (RDC). CCRDC is a nonprofit corporation formed within the California State Department of Commerce that provides state guarantees for loans to small businesses and farms. In 1995 and the first six months of 1996, the bank funded six CCRDC guaranteed loans totaling \$1.1 million. The RDC is the business and industry subsidiary of the United States Department of Agriculture (USDA) primarily focusing on small business and small industry lending that is similar to SBA type lending. In 1996, the bank has provided financing of two business loans in the amount of \$1.4 million which were guaranteed through the RDC's Business and Industry Guaranteed Loan Program.

DISCUSSION OF INSTITUTION'S PERFORMANCE (Continued)

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES:

Reasonableness of Delineated Community:

The bank's community delineation is reasonable and does not arbitrarily exclude any low- and moderate-income areas.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

- ▶ FNB performs an annual analysis of the geographic distribution of its credit extensions. This analysis shows reasonable penetration in all segments of the community, including low- and moderate-income areas.

The Board and management track and review the bank's lending volume and distribution within its delineated community. The analysis includes small business loans and consumer loans. Using information from this analysis, below is the geographic distribution of the bank's loan originations for the first six months of 1996. The information depicts a reasonable penetration in all segments of the community including low- and moderate-income areas.

| Small Business Loan Originations | | | | |
|---|------------|------------|------------------|------------|
| 1996 (six months) | | | | |
| Tract Income Level | # | % | \$(000's) | % |
| Low/moderate | 58 | 25% | 10,009 | 33% |
| Middle | 64 | 27% | 9,366 | 30% |
| Upper | 105 | 45% | 10,685 | 35% |
| Out of Area | 8 | 3% | 733 | 2% |

DISCUSSION OF INSTITUTION'S PERFORMANCE (Continued)

Assessment Factor E - (Continued)

The distribution of consumer loans (home equity, motor vehicle, other secured and other unsecured loans) outlined in the following table reflects a reasonably proportionate distribution of loans across all census tract income levels. The information combines 1995 and the first six months of 1996.

| Consumer Loan Originations | | | | |
|-----------------------------------|------------------|------------|------------|------------|
| Tract Income Level | \$(000's) | % | # | % |
| Low/moderate | 3,593 | 17% | 189 | 23% |
| Middle | 2,452 | 11% | 230 | 47% |
| Upper | 14,777 | 69% | 353 | 42% |
| Not Applicable | 725 | 3% | 59 | 7% |

Assessment Factor G - **The institution's record of opening and closing offices and providing services at offices.**

- ▶ All of the bank's offices are readily accessible to all segments of the community. The bank has not opened or closed any branch office since the last CRA evaluation.

FNB has offices in Monterey, Salinas, Carmel, and Watsonville. All offices are accessible by the local public transit system. All branches, except Monterey, have bilingual employees to assist the bank's Spanish-speaking customers. In May and June of this year, ATM machines were installed in the four offices. Another proprietary ATM was installed at the Monterey Peninsula College. All branches are accessible to persons with disabilities and low cost accounts are offered to senior citizens.

The Board has adopted a branch closing policy in conformance with the CRA. There were no branch openings or closures since the last public evaluation dated September 30, 1994.

DISCUSSION OF INSTITUTION'S PERFORMANCE (Continued)

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES:

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

- ▶ The bank solicits and accepts credit applications from all segments of low- and moderate-income areas.

We did not identify any practices intended to discourage applicants for the types of credit offered by the bank. FNB has developed complete written policies, procedures, training, and monitoring processes to assure that the bank does not illegally discourage or pre-screen applicants.

The OCC has contact with several community groups operating in the bank's delineated community. None of these groups has provided negative information regarding the bank's performance under the CRA.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

- ▶ FNB is in substantial compliance with all of the provisions of anti-discrimination laws and regulations.

Concurrent with the CRA examination, the OCC conducted a review of the bank's compliance with Fair Lending laws. This review found the bank to be in substantial compliance with Fair Lending statutes.

DISCUSSION OF INSTITUTION'S PERFORMANCE (Continued)

V. COMMUNITY DEVELOPMENT:

Assessment Factor H - **The institution's participation, including investments, in local community development and redevelopment projects or programs.**

- ▶ FNB has maintained a high level of participation and strong commitment to development and redevelopment projects within the delineated community.

The bank continues to be actively involved in outreach efforts to keep abreast of community development and redevelopment programs and projects available within its delineated community. Below are examples of development and redevelopment loans the bank made in 1995 and the first six months of 1996:

- ▶ Pajaro Valley Prevention and Student Assistance, Inc. - \$80,000 line of credit for short term operating funds pending collection of State of California Grant funds. This is a nonprofit corporation dedicated to drug, alcohol, and gang suppression in the Pajaro Valley School District.
- ▶ Don Chapin Construction - \$1.2 million construction loan for 13-unit affordable housing in Castroville located in a low income census tract and restricted to low- and moderate-income borrowers.
- ▶ DKD Equipment Company - \$610,000 loan for business expansion under the RDC program.

FNB also provides leases to various municipalities for the acquisition of essential buildings and equipment such as portable classrooms, airplane hangars, energy retrofits for buildings, school buses, and fire trucks. From September 30, 1994 through September 16, 1996, FNB financed 23 municipal leases totaling \$9.5 million. Twelve, or 55% of these leases amounting to \$4.9 million, were made to municipalities within the bank's delineated community.

DISCUSSION OF INSTITUTION'S PERFORMANCE (Continued)

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

- ▶ FNB is a financially strong and well-managed institution operating under a stable local economic environment.

There are no financial, legal, or economic impediments that prevent the bank from meeting the credit needs of its community.

The Board and management have established on-going and meaningful working relationships with government and private sector representatives to identify opportunities for addressing community credit needs. These relationships are fostered through the bank's membership and involvement in the Monterey County Economic Development Corporation, the Mayor's task force for the City of Monterey, California Coastal Rural Development Corporation, Service Core of Retired Executives (SCORE) and the Business Education Student Transition (BEST). All these groups are committed to a prosperous and improved local economy.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

- ▶ FNB actively participates in other activities that help meet community credit needs.

Bank participation in the local community is extensive. Some of these activities in 1996 are noted below.

- ◆ The Bank made the initial \$5M donation to finance the replacement of the collapsed bridge over the Carmel River on Highway 1.

DISCUSSION OF INSTITUTION'S PERFORMANCE (Continued)

Assessment Factor L - (Continued)

- ◆ The Bank provided \$10M seed money to the El Pajaro Community Development Corporation. The El Pajaro CDC provides business services and loan guarantees to foster urban/rural revitalization within the community.
- ◆ The Bank participated in the City of Watsonville's preliminary Enterprise Zone application.
- ◆ The Bank provided the use of its Community Rooms to various groups and organizations on 144 occasions in 1995 through June 1996.
- ◆ The Bank made a presentation on "Preparing For An Initial Employment Interview" at the Center for Employment Training (CET) Job Development seminar in Salinas.