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Comptroller of the Currency  
Administrator of National Banks

LARGE BANK

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## **Public Disclosure**

November 2, 1998

### **Community Reinvestment Act Performance Evaluation**

**First National Bank of Central California  
Charter Number: 18182**

**307 Main Street  
Salinas, California 93901**

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**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 CRA performance of **First National Bank of Central California (FNBCC)** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **November 2, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Community Reinvestment Act (CRA)** - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Metropolitan Statistical Area (MSA)** - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

**Census Tract (CT)** - Small, locally defined statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per ten year census and an average population of 4,000.

**Home Mortgage Disclosure Act (HMDA)** - A statute that requires certain mortgage lenders that do business or have banking offices in an MSA 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 its disposition (e.g., approved, denied, withdrawn).

**Median Family Income (MFI)** - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of census tracts. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

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

**Moderate-Income** - Income levels that are at least 50% and less than 80% of the MFI.

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

**Upper-Income** - Income levels that are 120% or more of the MFI.

**Small Business Loans** - Loans with an original amount of \$1 million or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

**Small Farm Loans** - Loans with an original amount of \$500 thousand or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.



## CRA Rating

**Institution’s CRA Rating:** This institution is rated “**Satisfactory.**”

The major factors which support this rating include:

- < First National Bank of Central California’s (FNBCC) lending shows adequate responsiveness to the credit needs of the assessment areas.
- < A significant portion of the bank’s loans are within the assessment areas.
- < The small business loans are well distributed among the geographies at all income levels.
- < FNBCC’s delivery systems are accessible to all portions of the assessment areas. The bank did not close any offices, but opened one in a moderate-income geography. Fifty (50) percent of the number of the bank’s branches are located in LMI census tracts. Services and business hours are appropriate.
- < Bank community development services are very responsive to the assessment areas.

The following table indicates the performance level of **First National Bank of Central California** with respect to the lending, investment, and service tests:

Performance Levels	First National Bank of Central California Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory			X
Low satisfactory	X		
Needs to improve		X	
Substantial noncompliance			

\* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

## Description of Institution

First National Bank of Central California (FNBCC) is a wholly owned subsidiary of Pacific Capital Bancorp (PCB). The PCB is headquartered in Oldtown Salinas. As of September 30, 1998, PCB's assets totaled \$853 million. FNBCC has five full service branches in their assessment areas of Monterey and Santa Cruz Counties. The branches are located in the cities of Monterey, Carmel, Salinas, Soledad, and Watsonville. The bank is headquartered in the city of Salinas. A deposit gathering facility is located in Oldtown Salinas. FNBCC has full service automatic teller machines (ATMs) attached to branches located in Monterey, Carmel, Salinas, Soledad, and Watsonville. The bank has a stand alone ATM in Prunedale city (Monterey County) and another ATM attached to the Monterey Peninsula College.

As of June 30, 1998, FNBCC's total assets were \$607 million of which \$330 million or 54 percent are centered in loans. FNBCC is primarily a business bank, but has available a full complement of consumer loan products, which are offered as accommodation to the bank's business customers. Refer to the table below for details.

<b>FNBCC Loan Portfolio Distribution</b>		
<b>Table 1</b>		
<b>Loan Type</b>	<b>Amount (000)</b>	<b>Portfolio %</b>
<b>Commercial</b>	\$281,945	85%
<b>Consumer Real Estate</b>	\$29,226	9%
<b>Consumer Installment</b>	\$18,329	6%
<b>Credit Card</b>	\$281	0%
<b>Total</b>	<b>\$329,781</b>	<b>100%</b>

Effective November 1, 1998, Pacific Capital Bancorp merged its other bank subsidiary, South Valley National bank into First National Bank of Central California, which expanded its service area to include Santa Clara and San Benito Counties. Since the merger occurred one day before the start of this examination, only the performance of FNBCC in Monterey and Santa Cruz Counties was considered for the purposes of this evaluation. The bank's major competitors are the Bank of Salinas, Monterey County Bank, Coast Commercial Bank, and Monterey Bay Bank with branches in Monterey and Santa Cruz Counties.

There are no legal nor financial impediments to FNBCC's ability to meet the credit needs of its assessment areas. Our last evaluation of the bank's CRA performance was dated September 16, 1996. At that time, we rated the bank's CRA performance "Outstanding."

## Description of the Assessment Area

The bank defines its two assessment areas as the northern portion of Monterey County and the southern portion of Santa Cruz County. The U.S. Census Bureau has defined each county as a Metropolitan Statistical Area (MSA). The assessment areas meet the requirements of the regulation, and do not arbitrarily exclude low- and moderate-income census tracts. The descriptions of the assessment areas below discuss only those portions of the the two MSAs that the bank defines as its assessment areas.

### Monterey County Assessment Area

Monterey County is approximately 105 miles south of San Francisco. This assessment area contains the cities of Aromas, Carmel-by-the-Sea, Castroville, Del Monte Forest, Del Rey Oaks, Monterey, Salinas, Sand City, and Soledad. The population in this assessment area is 325,602, according to the 1990 Census figures. Of the assessment area's 64 census tracts, two are low-income, 14 are moderate-income, 29 are middle-income, and 19 are upper-income (*See the table below for details*). The Housing and Urban Development Agency (HUD) estimated the 1998 Median Family Income for this assessment area at \$48,200. The median-price home is \$213,506. Because more than 36% of the assessment area population is of low- and moderate-income, local governments are challenged to provide sufficient affordable housing.

First National Bank of Central California - Monterey County Assessment Area															
Table 2															
Low-Income				Moderate-Income				Middle-Income				Upper-Income			
Census Tracts		Families		Census Tracts		Families		Census Tracts		Families		Census Tracts		Families	
2	3%	14,496	18%	14	22%	14,214	18%	29	45%	18,431	23%	19	30%	31,321	40%

Source:

Demographic Data - 1990 U.S. Census

The federal government owns approximately 25% (28,000 acres) of the land in the County that consist of the Naval Postgraduate School, Defense Language Institute, and the U.S. Army military base at Fort Ord. Fort Ord, the largest of the government facilities, was closed during September 1994, which eliminated 1,400 federal government jobs. To facilitate the conversion of Fort Ord into other governmental and civilian uses, the State Legislature created the Fort Ord Reuse Authority (FORA). The FORA's proposed conversion plan would create a mixed residential, commercial, and light industrial community with 35,000 residents. The former military base contains more than 6,400 unused housing units that could be used for affordable housing needs. Because agriculture is a major industry in



the area, the cost of the remaining land available for residential use has increased which remains a significant factor in the barrier to affordable housing.

Agriculture and tourism are the two largest economic factors in the county. During 1997, agricultural products generated approximately \$2.1 billion in sales. The county is the state's largest producer of grapes. Agricultural production primarily occurs in the Salinas Valley. Many of the agricultural jobs are low-skilled and low-paying which result in low-income households. Tourism remains strong and continues to grow. Monterey is one of the premiere tourist destinations in the United States with more than four million visitors annually. The tourism industry generated more than \$1.5 billion for the county in 1997. Many retail business opportunities exist in several commercial business districts in Monterey. These districts include Cannery Row, Del Monte Center, Downtown Monterey, Heritage Harbor, New Monterey, and North Fremont. Of the 11,681 businesses operating in the assessment area, 8,947 (77%) businesses have annual revenues less than \$1 million.

**Santa Cruz County Assessment Area**

Santa Cruz County is 65 miles south of San Francisco and 29 miles north of Monterey Bay. This assessment area contains the cities or communities of Aptos, Live Oak, Opal Cliffs, Rio del Mar, Soquel, and Watsonville. The population of this assessment area is 127,281. Of the assessment area's 20 census tracts, six are moderate-income, 12 are middle-income, and two are upper-income (*See the table below for details*). The 1998 HUD estimated Median Family Income for this assessment area is \$58,700 and the median-priced home is \$251,658. The 1990 census shows that 42% of the population is of low- and moderate-income.

First National Bank of Central California - Santa Cruz County Assessment Area															
Table 3															
Low-Income				Moderate-Income				Middle-Income				Upper-Income			
Census Tracts		Families		Census Tracts		Families		Census Tracts		Families		Census Tracts		Families	
0	0%	6,733	22%	6	30%	6,168	20%	12	60%	7,296	24%	2	10%	10,420	34%

Source:  
Demographic Data - 1990 U.S. Census

Because of the large number of low- and moderate-income families coupled with land use laws that prohibit the conversion of prime agricultural lands for housing, local governments are challenged to meet the need for affordable housing. In the City of Watsonville, low wages and seasonal employment in agricultural production have contributed to several social problems, including high unemployment rates in excess of 22%, overcrowding, and a high violent crime rate. According to a report published by the National Association of Home Builders, Santa Cruz County is the second most expensive home

ownership market in the United States<sup>1</sup>. Only 15% of the families in Santa Cruz County can afford a median-priced home.

Of the 5,479 businesses operating in the assessment area, 4,336 (79%) businesses have annual revenues less than \$1 million. The five largest employers include the University of California, Santa Cruz, County of Santa Cruz, Seagate Technology (maker of computer disk drives), Pajaro Unified School District, and Dominican Santa Cruz Hospital.

### **Assessment Areas Needs**

As part of our examination, we considered information obtained from the Housing Authority of Monterey County, Affordable Housing Corporation, Economic Development Corporation of Monterey County, Santa Cruz Redevelopment Agency, Santa Cruz Planning & Community Development Department, Santa Cruz County Human Resource Agency, and the Volunteer Center of Monterey County. Additionally, we obtained information from the Consolidated Plans for the cities of Monterey, Salinas, Santa Cruz, Seaside, and Watsonville. The various housing and government agencies identified the following needs:

### ***Lending***

- 9 Affordable rental housing for large, low-income households, including farm workers, with assistance from the Federal Community Development Block Grant Entitlement Program. Affordable housing and rent subsidies in Watsonville are in extremely short supply. The Housing Authority's waiting list is 8,142.
- 9 First time home buyers' programs for low- and moderate-income households.
- 9 Rehabilitation of older housing stock. The city of Santa Cruz has identified specific areas, including the Beach/Lower Ocean Street area, for rehabilitation due to overcrowding, cost burden, and deteriorating housing conditions. Local government officials estimate the total cost to address the city's housing needs is \$14.5 million. In the City of Watsonville, approximately 12 percent of the housing units need rehabilitation, including repairing or upgrading electrical plumbing and insulation systems.
- 9 Revolving loans to local economic development agencies.
- 9 "Gap" financing for small businesses. The Small Business Administration (SBA) is a great source of financing for small businesses. However, some programs only fund two-thirds of the loan, leaving the borrower to provide the other one-third in financing.
- 9 Funding to increase capitalization of the revolving Small Business Micro-loan Fund for small businesses in the City of Watsonville. The fund will provide \$600,000 in new loans.
- 9 Funding to increase capitalization of the City of Watsonville Facade Improvement Program.

### ***Investments***

- 9 Cash contributions or grants to community development organizations.
- 9 Equity participations in the local Community Development Corporation.
- 9 Grants to fund at-risk youth programs, i.e., Ramsey Park Youth Center.

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<sup>1</sup> Watsonville Consolidated Plan for 1995

- 9 Grants for child day-care and preschools in Watsonville.
- 9 Grants to renovate gutters, lighting, street paving, and other improvements in low-income neighborhoods in Pajaro.
- 9 Participation in housing projects with the Housing Authority of the County of Monterey. These projects would include loan syndications with tax credit benefits.

*Services*

- 9 Consumer education to help consumers qualify for mortgage loans and teach them the importance of having good credit.
- 9 Provide housing counseling.
- 9 Educate the general public on fair housing laws and regulations.
- 9 Provide technical assistance to small business owners.
- 9 Conduct seminars on the Business and Industry Loan program for local financial institutions.

## **Conclusions with Respect to Performance Tests**

### **LENDING TEST**

*In assessing lending performance, we focused on FNB CC's lending activity; assessment area concentration; geographic distribution of loans; borrower profile; responsiveness to credit needs of economically disadvantaged geographies, low-income persons or small businesses; community development lending; and, product flexibility.*

#### **Conclusions:**

The bank's lending is rated "Low Satisfactory."

- < FNBCC's lending reflects adequate responsiveness to the credit needs of its assessment areas.
- < FNBCC makes a significant portion of its loans within the assessment areas.
- < The distribution of small business loans among the geographies is good.
- < The distribution of HMDA products is not particularly responsive to LMI persons. This is consistent with the bank's business focus and restrictions on land use.
- < Community development lending is low. FNBCC offers flexible loan products.

#### ***Lending Activity***

FNBCC's lending activity shows adequate responsiveness to the credit needs of the assessment areas. The volume of business loans represents a significant percentage of the bank's total loan production, which is reflective of FNBCC's business strategy. FNBCC's market share of 1997 business loans is strong. The bank originated a small percentage of HMDA reportable loans. Most of the reported

HMDA loans were home equity. The following table summarizes the bank's lending for this review period.

Volume of Loan Originations in 1997 and YTD 1998 Monterey and Santa Cruz Assessment Areas Table 4						
Loan Product	Total Originations		Within the Assessment Area			
	#	\$ (000)	#	%	\$ (000)	%
Small Business	663	\$94,980	632	95%	\$88,059	93%
Small Farms	7	\$985	6	86%	\$970	98%
HMDA	88	\$7,761	85	97%	\$7,554	97%
Motor Vehicle	250	\$2,766	231	92%	\$2,594	94%
Other Secured Consumer	64	\$3,109	59	92%	\$2,367	76%
Other Unsecured Consumer	218	\$9,138	201	92%	\$8,650	95%
<b>Total 1997</b>	<b>1,290</b>	<b>\$118,739</b>	<b>1,214</b>	<b>94%</b>	<b>\$110,194</b>	<b>93%</b>
Small Business	393	\$58,860	370	94%	\$55,227	94%
Small Farms	10	\$1,286	10	100%	\$1,286	100%
HMDA	71	\$8,170	67	94%	\$7,700	94%
Motor Vehicle	211	\$2,411	187	89%	\$2,181	90%
Other Secured Consumer	50	\$1,804	45	90%	\$1,074	60%
Other Unsecured Consumer	194	\$8,252	165	85%	\$6,827	83%
<b>Total YTD 1998</b>	<b>929</b>	<b>\$80,783</b>	<b>844</b>	<b>92%</b>	<b>\$74,295</b>	<b>92%</b>
<b>Grand Total</b>	<b>2,219</b>	<b>\$199,522</b>	<b>2,058</b>	<b>93%</b>	<b>\$184,489</b>	<b>93%</b>

Source:

Bank prepared Data Collection Registers

FNBCC's market share of small business loans in 1997 for all assessment areas is good. Compared to all reportable institutions, FNBCC ranked fourth and ninth in Monterey and Santa Cruz Counties respectively in the number of loans originated. FNBCC's lending performance shows good responsiveness to community needs as small business lending continues to be a need in both assessment areas. Business loans account for 49 percent by number and 78 percent by dollar of the total loans originated by FNBCC within the assessment areas.

Consistent with FNBCC's focus, HMDA lending is low. HMDA loans within the assessment areas were 7 percent by number and dollar. The bank currently does not have the expertise to make these types of loans. Additionally, in the Monterey County assessment area, land for home building is not readily available. The federal government owns 25 percent of the land and developers have to compete with farmers for whatever land is available. In the Santa Cruz assessment area the land use laws prohibit the conversion of prime agriculture land.

Farm lending is consistent with limited opportunities and available bank resources. FNBCC's assessment areas are predominately agricultural; however, the bank does not have the resources available to manage the risk associated with this type of lending. Also, most of the farmers are large crop growers and require more expertise and funding than the bank currently has available. As a result, management has elected to limit lending until such time as they are able to develop the necessary expertise.

Consumer loans are originated primarily as accommodations to the bank's business customers and employees. These loans accounted for 45 percent by number and 12 percent by dollar of the total loans originated within the assessment areas.

### ***Assessment Area Concentration***

As shown in Table 4, a substantial majority of FNBCC's loans are within the assessment areas. The percentages of total loans were 93 percent by number and 93 percent by dollar volume.

### ***Geographic Distribution of Loans within the Assessment Area***

The geographic distribution of the small business loans is very good. A good indicator of the bank's efforts to originate loans to businesses throughout the assessment areas is the market share comparison. For 1997, the market share data indicates that overall, FNBCC has the fourth highest market share by number in the Monterey assessment area. FNBCC's lending in the low-income geographies is consistent with market share in this assessment area. Distribution in the moderate-income geographies at 13 percent exceeds market share in the same assessment area. The bank's market in the middle- and upper-income geographies is also consistent with overall market share.

FNBCC is ranked ninth overall for 1997 for small business loan origination in the Santa Cruz assessment area. The bank's market share in the moderate-income geographies at 7 percent exceeds overall market share of 2 percent. Distribution in middle- and upper-income geographies is consistent with market share. There are no low-income geographies in this assessment area.

The geographic distribution of HMDA loans was low relative to demographic data, particularly in LMI geographies. This is consistent with FNBCC's lending focus.

Table 5 shows the geographic distribution of FNBCC's small business and small farm loans for the review period. For comparison, the table shows the distribution of census tracts based on income, and the demographic distribution of small businesses.

Distribution of Small Business and Farm Loan Originations in 1997 and YTD 1998 Within Monterey and Santa Cruz Assessment Areas By Income Level of the Census Tract Table 5								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	2	2%	20	24%	41	49%	21	25%
Census Tracts Penetrated (% of tracts in income group)	2	100%	17	85%	34	83%	18	86%
Number of Businesses	689	5%	2,846	22%	5,860	44%	3,888	29%
Number of Farms	17	3%	108	20%	266	49%	148	28%
Loan Product	#	%	#	%	#	%	#	%
Small Business	47	7%	130	21%	175	28 %	280	44%
Small Farm	0	0%	1	17%	5	83%	0	0%
Total 1997	47	7%	131	21%	180	28%	280	44%
Small Business	36	10%	76	21%	102	28%	150	41%
Small Farm	0	0%	3	30%	3	30%	4	40%
Total YTD 1998	36	10%	79	21%	105	28%	154	41%
<b>Grand Total</b>	<b>83</b>	<b>8%</b>	<b>210</b>	<b>21%</b>	<b>285</b>	<b>28%</b>	<b>434</b>	<b>43%</b>

Source:  
Business Demographic Data and bank prepared Small Business and Farm Loan Data Collection Register

FNBCC's distribution of small business loans in the low-income geographies exceeds the demographics of the assessment area. Geographic distribution in the moderate-income geographies compares favorably to area demographics. Distribution in the middle- and upper-income geographies is reasonable. The combined distribution across the LMI geographies was 28 percent in 1997, and 31 percent in 1998, compared to 5 percent and 22 percent of the total businesses respectively in the same geographies. The bank's penetration is higher in the middle- and upper-income geographies, but this distribution is consistent with the assessment areas demographics.

Of the HMDA loans originated for the period, 5 percent in 1997, and 6 percent in 1998, were funded within the assessment areas compared to combined owner-occupied units in LMI tract distribution of 13 percent in Monterey County and 19 percent of the Santa Cruz County. However, this type of lending is not a primary focus of the bank.

***Distribution by Borrowers' Income within the Assessment Area***

FNBCC's lending to businesses of different sizes is reasonable. The Table 6 below indicates that 80 percent of the number of loans originated were in amounts of less than \$100,000.

<b>Distribution of Small Business and Farm Loan Originations in 1997 and Year-to-Date 1998 Within the Assessment Areas By Loan Size and Business Revenues Table 6</b>								
<b>Loan Size</b>					<b>Annual Revenues &lt; \$1 Million</b>			
	<b>#</b>	<b>%</b>	<b>\$ (000)</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$ (000)</b>	<b>%</b>
< \$100,000	687	69%	\$29,359	21%	514	80%	\$20,015	33%
\$100,000 to \$250,000	148	15%	\$25,637	18%	65	10%	\$11,254	19%
\$250,000 to \$1,000,000	166	16%	\$86,454	61%	60	9%	\$28,854	48%
Totals	1,001	100%	\$141,450	100%	639	100%*	\$60,123	100%
<b>Distribution of Businesses and Farms in the Assessment Area by Annual Revenues of the Business or Farm:</b>				< 1 Million	77%	*Rounded Number		
				> 1 Million	23%			
				Unknown	0%			

Source: Business Demographic Data and bank prepared Small Business and Farm Data Collection Register

This distribution compares favorably to 1997 aggregate data for all lenders within FNBCC's assessment areas, where 35 percent of the loans originated for the same year were extended to small businesses. As indicated by the table above, 64 percent of the business loans went to borrowers with revenues of less than \$1 million. This performance is indicative of the bank's responsiveness to lending to small businesses. As a comparison to the number of small businesses (77%) within the assessment areas, which reported sales of less than \$1 million, this is below the bank's opportunities to lend.



FNBCC's distribution of HMDA products by borrower income level is low. This is expected considering the bank's lending focus and the restrictions on land use in the assessment areas. The distribution of HMDA products for the combined assessment areas by number is 0 percent low-income, 5 percent moderate-income, 11 percent middle-income, and 84 percent upper-income.

### ***Community Development Lending***

FNBCC community development lending is low. The bank is a 50 percent participant in a \$2,500,000 loan. This loan was originated to construct a museum in Oldtown Salinas. This portion of the city was targeted for redevelopment and revitalization. The city's redevelopment agency provided land used in this development. This development created 12 new jobs.

The bank also originated three other loans totaling \$300,000, which are included in the small business loans. However, these loans have the characteristics of community development loans.

### ***Product Innovation and Flexibility***

FNBCC uses flexible lending practices and provides products consistent with bank resources to serve the assessment areas. One example of flexible underwriting is reflected in the loans originated to assist borrowers residing within the assessment areas during the recent floods.

The bank instituted a flood disaster program for secured, as well as unsecured loans. The program allowed borrowers to extend loan payments and maturities without incurring fees for a period of up to 60 days. Additionally, four loans totaling \$129,050 were originated. These loans were interest only with no fees and underwritten at the Wall Street Journal (WSJ) prime rate for six months. Term loans were underwritten for interest only for six months and no fees, and converted to scheduled amortization at 1 percent below the published rate with no fees.

## **INVESTMENT TEST**

*To assess FNBCC's performance under the Investment Test, we reviewed its investment and grant activity; responsiveness to credit and community development needs; and, its initiatives with community development.*

### **Conclusions:**

The bank's performance within the assessment area is rated "Needs to Improve." This rating is based on the discussions that follow.

< FNBCC has a low level of qualified community development investments.

< Investments were responsive to assessment area needs.

The bank responded to community needs by providing donations to organizations whose primary purpose is community development. FNBCC made 17 donations for a total of \$25,500 during this review period, which benefitted both assessment areas. Most (78%) of the donated funds supported economic development through organizations which nurtured the growth and viability of small businesses within the community. Detailed below are two examples of qualified investments which supported small businesses.

- C **Monterey County Economic Development Corporation** - The focus of this nonprofit organization is to promote economic revitalization by ensuring the financial viability of small businesses. The bank donated \$5,000 to this organization to assist with the costs associated with the provision of financial education and counseling.
- C **El Pajaro Community Development Corporation** - This corporation's mission is to create community development and provide entrepreneurial opportunities and services that create jobs and self-employment for low-income individuals. FNBCC contributed \$5,000 to assist this organization to carry out its mission.

## **SERVICE TEST**

*In assessing FNBCC's performance under the Service Test, we focused on the accessibility of its delivery systems; changes in branch locations; reasonableness of its business hours and services in meeting the needs of its assessment areas; and, level of community development services.*

### **Conclusions:**

FNBCC's performance is rated "High Satisfactory."

- < Delivery systems are accessible to all portions of the assessment areas and 50 percent of the number of the branches are located in low- and moderate-income census tracts.
- < The bank's record of opening and closing branches positively impacted LMI individuals.
- < Bank products are the same at all branches.
- < FNBCC does a good job of providing community development services.

### ***Retail Banking Services***

The bank branches are reasonably distributed among the populated areas within the two assessments. Fifty (50) percent of the bank’s branches are located in LMI census tracts. Alternative delivery systems are geared toward the business customers and provide good service to that customer base. The bank did not close any branches during this evaluation period. As the bank opens new branches, special consideration is given to the LMI areas. This is evidenced by the recent branch acquisition in 1997. The new branch is located in a moderate-income area in Soledad city. Services in the branches do not vary in any portion of the assessment areas. Fees and hours are reasonable and consistent with those of the bank’s competitors.

<b>Distribution of Delivery System By Income Level of the Census Tracts Table 7</b>								
<b>Community Data</b>	<b>Low-Income</b>		<b>Mod-Income</b>		<b>Middle-Income</b>		<b>Upper-Income</b>	
Census Tracts	2	2%	20	24%	41	49%	21	25%
Households	1,002	1%	35,298	23%	76,297	50%	40,254	26%
<b>Type of Service</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Branches	1	17%	3	50%	0	0%	2	33%
ATMs	0	0%	2	33%	1	17%	3	50%
Totals	1	8%	5	42%	1	8%	5	42%

Source: Bank Internal Records

### ***Community Development Services***

FNBBCC does a good job of providing community development services. Bank personnel contributed 1,600 hours in services to 10 community organizations during this review period. All of the organizations provide benefits to both assessment areas, but primarily to the Monterey assessment area.

FNBCC's involvement included contributing staff expertise, fund raising, technical assistance, and education. In one instance, the bank had a leadership role. Some examples are discussed below.

- C **California Coastal Rural Development Corporation** - This is a state agency which does direct lending to businesses, as well as provide loan guarantees to lenders. This organization's objective is to promote small business enterprises with special emphasis on assistance to businesses that will create or retain jobs. A bank officer provides banking expertise as a member of the loan committee and counsels loan officers. This activity required considerable time commitment.
- C **Good Neighborhood Fund** - FNBCC took a leadership role along with The Herald Newspaper and the Community Foundation of Monterey County to establish this non profit organization. This organization provides urgent financial assistance to LMI individuals and families within the Monterey and Santa Cruz Counties. The Red Cross verifies the emergency and the bank administers the funds.
- C **City of Watsonville, Silent Second Program** - This is a first-time home buyer program. This program is designed to provide financing for low- and moderate-income individuals. The bank is the administrator of the program and works closely with the city. In that capacity, FNBCC is responsible for loan application review, underwriting, loan documentation coordination, and auditing. As of the date of this report, \$1.6 million or 83 loans were funded through this program.
- C **F.O.O.D. Crops** - This is a nonprofit year-round, tri-county organization created by members of the local agricultural community. More than 200 nonprofit organizations benefit from this program. A bank officer provides budgeting and tax advice to the nonprofit organizations.
- C **Monterey County Loan Fund Program** - This program is designed to provide below market rate loans to businesses located within this county. The objective is to stimulate economic development and employment within Monterey County. FNBCC originates as well as services all loans funded through this program. To date 10 loans totaling \$603 thousand were funded through this program.
- C **Second Harvest Food Bank** - A bank employee serves as the director of finance as well as board member to this nonprofit organization. The organization distributes financial aid and food to low- and moderate-income individuals within the Santa Cruz assessment area.

### **Alternative Delivery Services**

FNBCC does a good job of providing alternative services for its business clients. Examples of two such services offered are shown below.

- < **ExecuBanc Service** - This is an on-line account information service designed for corporate money managers. Account balances are available daily, which allow the money managers to better

manage the funds and make investments. Clients can also request bank statements that are in process.

- < **Tax Payment Service** - Business customers can electronically pay their State Board of Equalization, Employment Development Department, and Franchise Tax Board taxes using a touch tone telephone. This service is also available for Federal tax payments at no charge.

## **Fair Lending Review**

FNBCC's does not offer mortgage loans and originates a small volume of consumer loans largely to accommodate the bank's business customers. During the fair lending review, a small number of mobile home loan denials were compared to approvals. Although this fair lending sample was limited, no violations of substantive provisions of the anti-discrimination laws and regulations were noted. Since the previous CRA examination, neither the bank nor the OCC has received complaints regarding FNBCC's lending to the community. Fair lending policies, procedures, and training programs provide sufficient guidance for bank personnel.

## **Metropolitan Statistical Areas**

### **Conclusions with Respect to Performance Tests in the Salinas MSA**

The bank's performance in the Salinas MSA (Monterey County) is analyzed in the context of the assessment area within the MSA. Refer to the **Description of the Bank's Assessment Areas** for more details.

The bank's CRA performance in the Monterey County has the greatest rating impact. This is the bank's primary assessment area. As stated in the Services Section of the bank's performance in this report, 83 percent of the branches are located in this assessment area.

### **LENDING TEST**

#### **Conclusions:**

- < FNbcc's lending activity reflects reasonable responsiveness.
- < Geographic distribution of loans among the geographies is satisfactory.
- < Lending to businesses of different sizes is satisfactory.
- < Community development lending is low. FNbcc offers flexible products.

#### **Lending Activity**

FNbcc's lending in this assessment area is responsive to this area's credit needs. During the review period the bank originated a significant volume of business loans. The bank is the fourth highest originator by number of the financial institutions, which originated small business loans in 1997. Of the total loans originated, 73 percent by dollar and 47 percent by number are within this assessment area. Small farm loans are less than one percent by dollar and number. This is consistent with the bank's lending focus and the land use restrictions that exist. HMDA loans are 7 percent by dollar and number. Although this level of lending is low, it is consistent with the bank's business strategy. Refer to the table below for details.

**Monterey County Assessment Area**  
**Volume of Small Business, HMDA, and Community Development Loans**  
**Compared to Total Volume in All Assessment Areas**  
**Table 8**

Loan Product	Total Originations		As a Percentage of the Total in all the Assessment Areas	
	#	\$(000)	#	\$
Small Business	581	\$56,646	91%	94%
Small Farm	4	\$104	29%	5%
HMDA	147	\$14,524	97%	95%
Community Development	1	\$1,250	100%	100%
<b>Grand Total</b>	733	\$72,524	91%	92%

### Assessment Area Concentration

A substantial majority of the loans originated by the bank are within this assessment area. FNBBCC originated 92 percent by dollar and 91 percent by number of the loan types shown in Table 8 above within this assessment area.

### Geographic Distribution of Loans

The distribution of small business loans is good. FNBBCC originated 6 percent and 20 percent of the number of loans to businesses located within the LMI geographies respectively. This distribution compares favorably to area demographics. Low- and moderate-income tracts account for 3 percent and 22 percent respectively. The distribution in the middle- and upper-income tracts at 26 percent and 46 percent are also consistent with area demographics. Market share information for lenders in this assessment area shows the bank's lending ranks fourth in low-income and third in moderate-income census tracts. In the middle-income and upper-income census tracts the bank is ranked fifth and second respectively. Refer to the table below for details.

The bank's geographic distribution of the HMDA loans is low. This is consistent with the bank's business focus and adversely impacted by the restrictions of land use and the high housing cost. Borrowers in the low-income census tracts did not receive any loans. Moderate-income borrowers received 6 percent by number and 4 percent by dollar. Borrowers in the middle-income census tracts received 16 percent by number and 6 percent by dollar. In the upper-income census tracts, borrowers received 78 and 90 percent by number and dollar respectively.



**Geographic Distribution of Small Business Originations for 1997 and YTD 1998  
Within Monterey County Assessment Area  
By Income Level of Census Tract**

**Table 9**

<b>Assessment Area Data</b>	<b>Low-Income</b>		<b>Moderate-Income</b>		<b>Middle-Income</b>		<b>Upper-Income</b>	
Census Tracts	3%		22%		45%		30%	
Distribution % of Businesses (8,947 total)	8%		20%		36%		36%	
Market Share	9%		13%		9%		14%	
<b>Loan Product</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Small Business Loans</b>	<b>33</b>	<b>6%</b>	<b>119</b>	<b>20%</b>	<b>140</b>	<b>24%</b>	<b>289</b>	<b>50%</b>

**Distribution by Borrowers' Income and Businesses of Different Sizes**

FNBBCC distribution of loans to businesses of different sizes is satisfactory. Within this MSA, the bank originated 581 loans in amounts less than \$1 million. This number represents 58 percent of total business loans originated by the bank. The number of small businesses within the assessment area is 77%.

The HMDA loan distribution by borrower income is low. This type of lending is not a primary focus of the bank.

**Community Development Lending**

Community development lending is low. FNBBCC originated one loan in the amount of \$1,250,000 to establish a museum in a section of Oldtown Salinas targeted by the city for redevelopment.

Establishment of this museum created 12 new jobs. Additionally, the bank funded a \$200,000 small business loan, which has all the characteristics of a community development loan.

## **INVESTMENT TEST**

- < The level of qualified investments is low.
- < Investments were responsiveness, but not considered innovative or complex.

The bank's investment performance is weak, although most of the investments made by FNBCC are within this assessment area. Of the total investments funded by the bank, 84 percent, or \$21,500 are within this assessment area. Grants and donations account for most of the funds included in the \$21,500 compared to actual qualified investments.

## **SERVICE TEST**

- < Delivery systems are accessible to all portions of the assessment area.
- < The bank's record of opening and closing offices are satisfactory.
- < Services are the same at all branches.

Community development services are satisfactory. Branches are accessible to all portions of the assessment area. Bank personnel contribute significant hours to organizations that serve the low- and moderate-income geographies and individuals. Of the reported services, most were to organizations which serve this assessment area. This is consistent with the bank's presence within this area. Most of the branch offices and employees are located in Monterey County. Some of the organizations the serves include Monterey County Loan Fund Program, F.O.O.D. Crops, United Way of Monterey County, and Small Business Council for Salinas Valley.

FNBCC offers a broad array of alternative services. Most of the alternative delivery services are geared toward the bank's business customers, which include automated state and federal tax payments, ACH direct deposit payroll, and execubank services.

## Metropolitan Statistical Areas

### Conclusions with Respect to Performance Tests in the Santa Cruz-Watsonville MSA

The bank's performance in the Santa Cruz-Watsonville MSA is analyzed in the context of the assessment area within the MSA. Refer to the **Description of the Bank's Assessment Areas** for more details.

The bank's CRA performance in the Santa Cruz County has the least impact on the overall CRA rating. This assessment area has one branch office. Therefore, the lending, investment, and services are somewhat limited. Refer to the **Services Section** of the bank performance in this report for details relative branch distribution.

### LENDING TEST

- < The bank's lending within the assessment area is responsive to the area's credit needs. In 1997, FNBCC was ranked ninth in the origination of small business loans for all lenders required to report such information. With one branch in this MSA, the bank's presence is limited. Considering only 9 percent of the number of loans are originated in this assessment, this performance is good. The bank originated 73 loans for a total of \$6.3 million. Small business loans accounted for 58 loans for a total of \$3.4 million. Refer to the table below for details.
- < Most of the farm loans originated by the bank were extended to borrowers within this assessment area.
- < HMDA lending is low, but this is not a primary focus of the bank. Also, there are restrictions in land use and the housing costs are high.

Santa Cruz County Assessment Area  
Volume of Small Business, HMDA, and Community Development Loans  
Compared to Total Volume in All Assessment Areas  
Table 10

Loan Product	Total Originations		As a Percentage of the Total in all the Assessment Areas	
	#	\$(000)	#	\$
Small Business	58	\$3,477	9%	6%
Small Farm	10	\$2,152	71%	95%
HMDA	5	\$730	3%	5%
Community Development	0	\$0	0%	0%
<b>Grand Total</b>	<b>73</b>	<b>\$6,359</b>	<b>9%</b>	<b>8%</b>

- < Geographic distribution of small business loans is good. Of the \$6.3 million loans originated, the bank extended 51 percent by number and 44 percent by dollar to businesses in the moderate-income census tracts. Borrowers within the middle-income tracts received 42 percent by number and 43 by dollar. Within the upper-income tracts, borrowers received 7 percent by number and 13 percent by dollar. There are no low-income tracts in this assessment area.
- < Community development lending is low. The bank did not fund any community development loans. However, the bank funded two small business loans totaling \$100,000, which have the characteristics of community development loans.

**INVESTMENT TEST**

- < The bank has a low volume of qualified investments. Qualified investments in this assessment area totaled \$4,000, or 16 percent of the bank’s total.

**SERVICE TEST**

- < FNBCC provided an adequate level of community development services considering the limited available resources. The bank contributed services to three community development organizations. Employees contributed a total of 407 hours.
- < The bank’s only office in this assessment area is located in a moderate-income census tract. This office is reasonably accessible to portions of the assessment area. The services offered at this office are the same as those offered at other locations.

## Appendix A: Scope of Examination

Our evaluation of First National Bank of Central California's CRA performance covered the period of January 1, 1997, through October 31, 1998. We applied the interagency procedures and guidelines for large Retail Institutions in our review. Loan products evaluated included the bank's HMDA loans, small business loans, small farm loans, and other qualified community development loans.

As noted in the **Description of the Assessment Areas** comment, we considered information from community contacts. Examiners also considered information published in the Monterey and Santa Cruz Counties' Consolidated Plans.

### Scope of the Examination

<b>Time Period Reviewed</b>	<b>January 1, 1997, through October 31, 1998</b>		
<b>Financial Institution</b>  <i>First National Bank of Central California Salinas, CA</i>	<b>Products Reviewed</b>  <i>Small Business, Small Farms, HMDA, and Community Development Loans</i>		
<b>List of Assessment Areas and Type of Examination</b>			
<b>Assessment Area</b>	<b>Type of Exam.</b>	<b>Branches Visited</b>	<b>Other Information</b>
<i>California</i>  <i>Salinas MSA, 7120 Santa Cruz MSA, 7485</i>	<i>On-site</i>	<i>1</i>	<i>Reviewed community contacts for all assessment areas, as well as consolidated plans.</i>

