

PUBLIC DISCLOSURE

August 11, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Hacienda Bank
RSSD #1163171**

**361 Town Center West
Santa Maria, California 93454**

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

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

TABLE OF CONTENTS

INSTITUTION.....	1
PERFORMANCE CONTEXT	
Description of Institution	2
Description of Assessment Area	3
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA	
Scope of Examination	6
Loan-to-Deposit Ratio	6
Lending in Assessment Area	6
Lending by Business Revenue and Borrower Income	7
Geographic Distribution of Loans.....	7
Response to Complaints.....	8
Compliance with Fair Lending Laws and Regulations.....	8
GLOSSARY OF TERMS	9

INSTITUTION

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

The major factors supporting the institution's rating include:

- A reasonable loan-to-deposit ratio, which is comparable to national, state, and local peer bank averages.
- A majority of loans originated within the assessment area.
- A reasonable penetration of loans to businesses with gross annual revenues of \$1 million or less and to applicants with different income levels.
- A reasonable geographic distribution of small business and consumer loans, with no conspicuous gaps in lending patterns.

PERFORMANCE CONTEXT

Description of Institution

Hacienda Bank (HB) is an \$80 million independent community bank headquartered in the city of Santa Maria, within Santa Barbara County. It began operations in 1988 with one office in Santa Maria and subsequently opened three additional branches: two in Santa Maria and one in the town of Nipomo, in San Luis Obispo County. In March 2002, the Nipomo branch closed. HB operates four ATMs: one at each of its branches and one in a Santa Maria market.

HB is primarily a commercial lender, with an emphasis on small- and medium-sized businesses with gross annual revenues of \$10 million or less. A wide array of commercial loan products are offered including lines of credit, real estate, lot and land development, equipment, and construction loans. Consumer products are also offered including residential construction loans, home equity lines of credit, mobile home loans, auto loans, boat loans, recreational vehicle loans, and personal loans. Additionally, home mortgage financing is available through brokerage services.

The strategic business focus of the bank is reflected in the loan portfolio mix, as reported in the June 30, 2003, Consolidated Reports of Condition and Income. As depicted below over 75 percent of all loans have a business purpose:

Loan Type	Dollar Amount ('000s)	Percent of Total Loans
Commercial/Industrial & Non-Farm Non-Residential Real Estate	\$30,262	58.0%
Construction & Land Development	\$10,690	20.5%
Secured by 1-4 Family Residential Real Estate	\$4,865	9.3%
Consumer Loans & Credit Cards	\$3,297	6.3%
Farmland & Agriculture	\$2,017	3.9%
Multifamily Residential Real Estate	\$583	1.1%
All Other	\$443	0.9%
Total (Gross)	\$52,157	100.0%

Hacienda Bank faces no legal or financial impediments that would prevent it from helping meet the credit needs of its assessment area consistent with its business strategy, size, financial capacity, and local economic conditions. The bank received a satisfactory rating at its previous CRA examination conducted as of August 16, 1999.

Description of Assessment Area

The assessment area consists of the northwestern corner of Santa Barbara County, including the cities of Santa Maria and Guadalupe, and the southern portion of San Luis Obispo County, including the town of Nipomo. The assessment area is made up of 20 contiguous census tracts in the Santa Barbara-Santa Maria-Lompoc MSA and two adjoining census tracts in the San Luis Obispo-Atascadero-Paso Robles MSA.

The assessment area is a competitive market for financial services. Deposits are concentrated in four large financial institutions that collectively hold 72 percent of the market share. As of June 30, 2002, Hacienda Bank maintained \$61 million in deposits, holding four percent of the deposit market share and ranking seventh out of 15 banks and thrifts operating 29 offices.¹ There are 87 aggregate small business lenders in Santa Barbara and San Luis Obispo Counties. This figure represents only the large bank lenders in the area and does not include small banks with assets of \$250 million or less, such as Hacienda Bank.

The following table highlights the 1990 Census data regarding the geographic composition of the assessment area used to help develop the performance context:

1990 Census Tract Income Level	Census Tracts		Population by Census Tract		Families by Census Tract		Households by Census Tract	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Moderate	7	31.8%	37,049	31.7%	8,677	28.5%	12,320	31.9%
Middle	12	54.5%	69,424	59.4%	18,560	61.0%	22,668	58.7%
Upper	3	13.6%	10,338	8.9%	3,167	10.4%	3,607	9.3%
Total	22	100.0%	116,811	100.0%	30,404	100.0%	38,595	100.0%

Despite the lack of low-income census tracts, it is a mixed-income area. Low-, moderate-, middle-, and upper-income households and families are represented in significant numbers. As shown in the table below, income levels of families and households were stratified somewhat equally across all income categories.

Income Categories	Families		Households	
	Number	Percent	Number	Percent
Low	6,873	22.6%	8,871	23.0%
Moderate	6,190	20.4%	6,940	18.0%
Middle	7,082	23.3%	8,334	21.6%
Upper	10,259	33.7%	14,450	37.4%
Total	30,404	100.0%	38,595	100.0%
Below Poverty	2,829	9.3%	3,772	9.8%

¹ Federal Deposit Insurance Corporation, Market Share and Bank Holding Company, *Summary of Deposits Market Share Report*, June 30, 2002; (accessed July 14, 2003) available from <http://www3.fdic.gov/sod>.

Industry and Employment

According to the California Employment Development Department,² Santa Barbara County's economic base is dominated by services, retail trade, and government. Services are the largest industry employer and provided 29 percent of county jobs in 2001. Government and retail trade are the second largest industries in the county, with both providing approximately 19 percent of the employment. Public education accounts for over half the local government employment in the county, with the University of California at Santa Barbara supplying the majority of the jobs. Vandenberg Air Force Base provides a large portion of the remaining government jobs; however, base reductions have caused the closure of many of its military functions. The largest components of retail trade are eating and drinking establishments and other retail trade, each providing approximately 13,000 jobs. Manufacturing and agriculture, despite recent declines, are still important industries and account for nine and eight percent of county employment, respectively.

According to the Employment Development Department,³ the San Luis Obispo County economy is based primarily on tourism and education. As a result, services, government, and retail trade dominate its economic base. In 2001, services provided 25 percent of county employment, with health and other services accounting for the largest concentration of jobs. Government makes up a little over 22 percent of all employment, with the majority in the local government sector, including local education, city and county government, and Indian tribal government. Retail trade contributes over 21 percent of the jobs, with the largest concentration in the eating and drinking establishments and other retail categories.

Santa Barbara County's economy went from fairly stable in 2001 to showing signs of weakness in 2002. The unemployment rate was 3.5 in 2001 and had remained fairly consistent since 1999. However it began to increase in 2001 when the top two industries, services and trade, showed weakness resulting from a lower level of consumer spending and a slowdown in tourism. By 2002, the economy showed signs of struggle. Job losses mounted in the manufacturing and travel industries, resulting in an unemployment rate of 4.1 percent. However, this modest increase is not truly reflective of the economic difficulties as it does not account for the unemployed workers who had either moved out of the area or stepped out of the workforce altogether.⁴

San Luis Obispo County's economy exhibited a similar trend and moved from rather healthy in 2001 to showing some signs of weakness in 2002. In 2001 the economy was fairly robust, with a very low unemployment rate of 2.8 percent. But in 2002 the unemployment rate grew to 3.3 percent. Additionally, business credit quality was slipping and business bankruptcy filings were on the rise.⁵

² California Employment Development Department, Labor Market Information by Geography, County Snapshot—Santa Barbara County 2002; (accessed July 14, 2003) available from <http://www.calmis.ca.gov>.

³ California Employment Development Department, Labor Market Information by Geography, County Snapshot—San Luis Obispo County 2002; (accessed July 14, 2003) available from <http://www.calmis.ca.gov>.

⁴ *Précis® METRO: Santa Barbara County* (West Chester, Pennsylvania: Economy.com, April 2002 and 2003).

⁵ *Précis® METRO: San Luis Obispo County* (West Chester, Pennsylvania: Economy.com, April 2002 and 2003).

Although Santa Barbara and San Luis Obispo counties showed signs of a weakening economy in 2002, the unemployment rates were well below that of California in 2002 at 6.7 percent.⁶

As indicated in the table below, Dun and Bradstreet reports that businesses with gross annual revenues of \$1 million or less accounted for 73 percent of area businesses. Community representatives state that such businesses need loans in small dollar amounts to finance working capital, but do not, however, cite this as an unmet credit need. The numerous banks serving this market offer these loans, which results in an extremely competitive market.

Census Tract Income Level	1990 Census Tracts		2002 Dun and Bradstreet			
	Number	Percent	Number Small Businesses	Percent Small Businesses	Number Total Businesses	Percent Total Businesses
Moderate	7	31.8%	1,941	40.5%	2,572	39.2%
Middle	12	54.5%	2,449	51.1%	3,432	52.3%
Upper	3	13.6%	404	8.4%	561	8.6%
Total	22	100.0%	4,794	100.0%	6,565	100.0%

Demographic and economic information, including interviews with community representatives, indicated that small business financing, particularly loans in small dollar amounts, continues to be an area credit need. Similar to the business credit needs, there is no indication that consumer credit needs are going unmet. Local data suggests reasonable access to a wide range of consumer credit throughout the assessment area.

⁶ *Précis® METRO: California* (West Chester, Pennsylvania: Economy.com, April 2003).

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of Examination

The CRA performance of Hacienda Bank was evaluated using the small bank examination procedures. The evaluation was based upon the following performance criteria:

- Loan volume in comparison to deposits (Loan-to-Deposit Ratio).
- Lending inside and outside the assessment area (Lending in Assessment Area).
- Distribution of lending to businesses with different revenue sizes and borrowers of different income levels (Lending by Business Revenue and Borrower Income).
- Dispersion of lending throughout the assessment area (Geographic Distribution of Loans).

Responsiveness to consumer complaints was not evaluated, as the bank received no CRA-related complaints.

The CRA performance review was based on small business and consumer loans originated between January 1, 2001, and December 31, 2002. Consistent with HB's commercial focus, small business loans carried greater weight in the evaluation. A total of 115 small business loans and 130 consumer loans were originated during the review period and these loans were used in the evaluation *Lending in Assessment Area*. A statistical sample of loans extended inside the assessment area was used for evaluating *Lending by Business Revenue and Borrower Income* and *Geographic Distribution of Loans*. The statistical sample included 65 small business loans and 71 consumer loans.

Loan-to-Deposit Ratio

The loan-to-deposit ratio meets standards for satisfactory performance. The eight-quarter average of 79 percent is consistent with the national and state peer bank averages of 74 and 77 percent, respectively. The ratio is also comparable to local peer banks, which ranged from an average of 69 to 81 percent.

Lending in Assessment Area

The concentration of loans extended inside the assessment area meets standards for satisfactory performance as a majority of the loans were originated within the assessment area. Small business loans extended within the assessment area were 84 and 70 percent by number and dollar volume, respectively. Consumer loans were 88 and 81 percent by number and dollar volume, respectively.

Lending by Business Revenue and Borrower Income

Lending by business revenue and borrower income meets standards for satisfactory performance.

Small Business Lending

Lending to businesses of different revenue sizes is reasonable. A majority, 60 percent, of the small business loans were extended to businesses with gross annual revenues of \$1 million or less. Comparatively, 73 percent of all businesses within the assessment area are small businesses. This performance surpassed that of the aggregate market, which extended only 39 percent to these businesses. Additionally, the majority of the loans granted to small businesses were in amounts of \$65,000 or less, which was an articulated credit need.

Consumer Lending

The distribution of consumer loans to borrowers of different income levels demonstrates excellent performance. As depicted below, lending relative to household income indicates that consumer loans were accessible to borrowers of all incomes. Lending to low- and moderate-income individuals was well above the percentage of low- and moderate-income households.

Borrowers	Households	Consumer Loans	
		Number ⁷	Percent
Low	23.0%	24	35.8%
Moderate	18.0%	20	29.9%
Middle	21.6%	12	17.9%
Upper	37.4%	11	16.4%

Geographic Distribution of Loans

The geographic distribution of loans meets standards for satisfactory performance.

Small Business Lending

Geographic distribution of small business loans throughout the assessment area is reasonable. As illustrated by the following table, small business lending compares favorably with the distribution of businesses and aggregate lending.

Census Tracts	Business Concentration	Small Business Loans		Aggregate Small Business Loans
		Number	Percent	
Moderate	39.2%	28	43.1%	32.7%
Middle	52.3%	26	40.0%	58.2%
Upper	8.6%	11	16.9%	9.2%

⁷ Income was not available for four consumer loans.

Consumer Lending

The geographic distribution of consumer loans demonstrates excellent performance. As seen in the following table, the dispersion of consumer loans exhibited good penetration throughout the assessment area and the concentration of loans in moderate-income tracts was well above the percentage of households.

Census Tracts	Households	Consumer Loans	
		Number	Percent
Moderate	31.9%	29	40.9%
Middle	58.7%	39	54.9%
Upper	9.4%	3	4.2%

Response to Complaints

Hacienda Bank received no complaints relating to its CRA performance since the previous examination. Accordingly, this component was not used to determine the overall performance rating.

Compliance with Fair Lending Laws and Regulations

No violations of the substantive provisions of the anti-discrimination laws and regulations were identified at this examination. Additionally, there was no evidence of prohibitive lending practices.

GLOSSARY OF TERMS

Aggregate lending: The number of loans originated and purchased by all lenders subject to reporting requirements as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

Block numbering area (“BNA”): Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.

Census tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals, activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration’s Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies,

Consumer loan: A loan to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories of loans: motor vehicle, credit card, home equity, other secured loan, and other unsecured loan.

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

Full review: Performance under the lending, investment, and service tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution) and qualitative factors (e.g., innovation, complexity).

Geography: A census tract or a block numbering area delineated by the U.S. Bureau of the Census in the most recent decennial census.

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

Home mortgage loans: Include home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

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

Limited review: Performance under the lending, investment, and service tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution).

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

Metropolitan area: Any primary metropolitan statistical area (“PMSA”), metropolitan statistical area (“MSA”), or consolidated metropolitan area (“CMSA”), as defined by the Office of Management and Budget, with a population of 250 thousand or more, and any other area designated as such by the appropriate federal financial supervisory agency.

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

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

Multifamily: Refers to a residential structure that contains five or more units.

Optional loans: Includes any unreported category of loans for which the institution collects and maintains data for consideration during a CRA examination. Also includes consumer loans and other loan data an institution may provide concerning its lending performance.

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

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

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

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

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

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

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