

PUBLIC DISCLOSURE

February 1, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**SAN BENITO BANK
RSSD ID No.: 199762
300 Tres Pinos Road
Hollister, California 95023**

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

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

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GENERAL INFORMATION

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

*This document is an evaluation of the Community Reinvestment Act (CRA) performance for **San Benito Bank** prepared by the Federal Reserve Bank of San Francisco, the institution's supervisory agency, as of **February 1, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to CFR Part 228.*

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

San Benito Bank's overall performance under the Community Reinvestment Act is currently satisfactory. Overall loan volume is adequate and originations are primarily concentrated in the bank's defined two assessment areas. The bank continues to play an active lending role in San Benito County as it continues to extend credit to small businesses and small farms. Although there has been a downturn in the farming industry, farmers continue to seek small loans for crop production and equipment financing from local community banks, of which San Benito Bank is a prominent lender.

The geographic distribution of the bank's loans exhibits a good dispersion of loans throughout the two communities, with particularly strong performance in the low- and moderate-income areas of the bank's new Santa Clara assessment area. Additionally, the bank's performance evidences a reasonable delivery of credit to borrowers of different income, measured by loans originated to businesses and farming entities of different sizes. In this regard, particular strength is evident in lending to small businesses and small farms in dollar amounts consistent with the size of their operations.

DESCRIPTION OF INSTITUTION:

San Benito Bank is a full service institution headquartered in the city of Hollister, located in San Benito County, California. Besides the main office, the bank operates two branches in the county, one in downtown Hollister and one in the neighboring city of San Juan Bautista. Since the previous examination, the bank has added a new office to its branch network. The new office, known as the Gilroy branch, opened on October 6, 1997, and is located in adjacent Santa Clara County.

San Benito Bank continues to offer a variety of commercial, agricultural and consumer credit. The bank is an active farm lender given the continued need for small farm loans emanating from the historically agricultural base of the county. Commercial loans include SBA loans, loans secured by commercial real estate, equipment loans and accounts receivable loans. The bank also offers a variety of consumer loans which includes direct and indirect auto loans, credit cards, and home equity loan and lines of credit. Although the bank does not actively originate residential mortgage loans, it continues to make this credit available by accepting applications and brokering the loans to other lenders.

Since the previous examination conducted as of June 3, 1996, the bank has evidenced apparent asset growth. As of September 30, 1998, the bank had total assets of \$166 million, which reflects an increase of approximately 50 percent from total assets of \$111 million on September 30, 1996. September 30 comparative data for the three interim periods between examinations indicates that a large part of this growth occurred after September 30, 1997 and can be in part attributed to new business emanating from the assessment area surrounding the bank's new Gilroy office. A review of the twelve-month period September 30, 1997 through September 30, 1998 showed a 29 percent growth in total assets and a 31 percent increase in total deposits. While gross loans grew by only 8 percent during this period, as a percentage of total asset, they continue to represent a primary component, aggregating \$86 million or 52 percent of the bank's asset base. Depicted in the following table is the composition of the loan portfolio by loan type:

Loan Product Classifications	Percent of Loan Portfolio
Business Loans:	
Commercial, industrial and other business purpose loans	24.5
Loans secured by non-farm, non-residential real estate	17.4
Construction and Land Development	22.5
Farm Loans:	
Finance agricultural production	11.9
Secured by farmland	4.5
Consumer Loans:	
Individuals for consumer purposes	7.9
Secured by 1-4 family residential properties	10.8
TOTAL	100.0

As reflected in the table above, the bank's primary products are comprised of commercial loans representing 42 percent of the loan portfolio, followed by construction and land development financing at 23 percent and farm loans at 16 percent. The lending in the latter two categories represents the bank's response to the continued need for small farm loans, and the recent housing boom in San Benito County. Since the previous examination, housing activity in San Benito County has increased as the high housing costs in the neighboring Santa Clara County drives the population into more affordable areas. As part of its business strategy, the majority of the credit extensions in the bank's "construction and land development" portfolio are to real estate developers specializing in residential construction. The bank anticipates continued

growth in this loan category as well as an increase in its commercial and consumer-lending portfolios as it establishes its foothold in Santa Clara County.

The bank was rated outstanding at the previous examination for demonstrated performance in San Benito County. As previously noted, the bank has expanded its market since the previous examination and now also services an assessment area in Santa Clara County. As it proceeds to expand its lending presence in this new assessment area the bank faces start-up challenges presented by a competitive market of peer banks and local branches of large statewide organizations. However, the bank has no financial constraints or legal impediments that hinder the extensions of credit in response to identified community needs.

DESCRIPTION OF ASSESSMENT AREAS

San Benito Bank has expanded its service market to the north into southern Santa Clara County with the opening of its branch in the city of Gilroy. The bank now has two assessment areas, the San Benito County assessment area and Santa Clara assessment area. The Santa Clara assessment area is part of the San Jose¹ Metropolitan Statistical Area (MSA) while the San Benito County assessment area is a non-metropolitan statistical area.

Description of San Benito County Assessment Area

San Benito County consists of nine census tracts. Depicted in the following table is the composition of the tracts in the bank’s assessment area along with the corresponding number of families that reside within those geographies as of the 1990 U.S. Census.

	Total Census Tracts		Total Families	
Tract Income Level	#	%	#	%
Low	1 ²	11	0	0
Moderate	0	0	0	0
Middle	3	33	3,012	33
Upper	5	56	6,192	67
Total	9	100	9,204	100

San Benito County’s economic base is still principally tied to agriculture, which accounts for the unusually high seasonal unemployment experienced within the county. During the summer months, employment within the county nearly doubles as compared with the winter months.

¹ The San Jose MSA is a part of the San Francisco-Oakland-San Jose Consolidated Metropolitan Statistical Area (CMSA)

² Tract 9.00 has a zero population (Diablo Mountain Range)

Preliminary December 1998 information reflects the impact of seasonal fluctuations as statistics³ indicate above average unemployment of 11.9 percent rate for Hollister, 9.4 percent for the county compared to 5.8 percent for the state.

Population growth within San Benito County, and in particular within the city of Hollister, has been increasing at a dramatic rate due in large part to employees of San Jose/Silicon Valley⁴ companies residing in the county. The surge in residents in this county is due to the abundance of housing options that are more affordable than those in neighboring Santa Clara County. Population estimates for 1998 for the city of Hollister and San Benito County are 29,050 and 46,600 respectively, while it is 33⁵ million for the state.

The largest commodities produced in the county include grapes; tree crops such as apricots, apples, walnuts and cherries; row crops like lettuce, broccoli, bell peppers, onions and garlic as well as nursery stock. The diversity of crops grown locally make this county a center for packing, shipping, and manufacturing of agricultural products. San Benito County has attracted a variety of industries as the county concentrates on industrial and commercial expansion as an alternative foundation for future economic development. Some of the typical businesses include San Benito Foods (food processing), Teledyne McCormickSelph (explosive bolts), Pacific Sod (turf sod), and Gabilan Welding, Inc. (steel and metal fabricator).

A community contact interviewed during the examination disclosed the continued need for small farm loans since in their perception, large financial institutions focus more on a larger profit margin and avoid smaller farms. The majority of the agricultural loans extended by these institutions are to large farms in amounts ranging from \$500 thousand to \$1 million.

With respect to commercial enterprises, 91 percent⁶ of the 1,232 businesses operating in the bank's assessment area are small businesses, with gross annual revenues equal to or less than \$1 million. Typically, credit needs of these entities warrant financing in amounts of \$500 thousand or less.

Description of Santa Clara Assessment Area

The bank's Santa Clara assessment area in consists of 6 census tracts surrounding the city of Gilroy. The following table lists the tracts in the assessment area along with the corresponding number of families that reside within those geographies as of the 1990 U.S. Census.

³ Source: State Employment Development Division, Labor Market Information Division

⁴ Community known as Silicon Valley due to the highest concentration of software firms in California

⁵ Source: State Employment Development Division, Labor Market Information Division, June 1998

⁶ Source:1996 Dun and Bradstreet (D&B) data for San Benito Bank's assessment area

Tract Income Level	Total Census Tracts		Total Families	
	#	%	#	%
Low	1	17	1,585	15
Moderate	2	33	2,489	24
Middle	3	50	6,415	61
Upper	0	0	0	0
Total	6	100	10,489	100

Located in Silicon Valley, Santa Clara County is the largest county in the San Francisco Bay Area with a population over 1.6 million. Home to over 4,900 high-technology companies, Silicon Valley is considered the high-technology center in the country and has experienced record job and industry growth. Computer networking, an industry that combines computing, communication, and software, is one of the fastest growing industries in Silicon Valley. Employment at the 30 computer networking firms has more than doubled between 1991 and 1996 as the number of jobs in this industry increased from 5,700 to 12,500. Preliminary December 1998 unemployment data reflects a rate of 5.1 percent for Gilroy, 3 percent for Santa Clara County compared to 5.8 percent for the state.

The city of Gilroy is experiencing an influx of population as people employed in Silicon Valley industries continue to move more southward in Santa Clara County in search of affordable housing. Population estimate for the city for 1997 was 36,550⁷ while it was 1.7 million for the county and 32.9 million for the state.

Additionally, Gilroy, long known as a farming center and the “Garlic Capital of the World” is gradually turning itself into a suburban community with a flair for attracting commercial business enterprises. Major employers in the city include Gilroy Foods, Inc. (garlic and onion processing), A & D Christopher Ranch (garlic product development), Lohmar (laundry services), Filice Trucking (truck/hauling), and a major outlet mall with 150 retail and specialty stores.

An analysis of businesses operating in the bank’s assessment area noted that approximately 87 percent⁸ of the 1,479 businesses are small businesses with gross annual revenues equal to or less than \$1 million. The proliferation of businesses in Gilroy continues to point to a need for small business loans for start-up companies and expansion loans for existing small businesses as articulated by a community contact. According to community contacts this need is not being met by the larger financial institutions which traditionally extend larger dollar loans.

⁷ Source: Gilroy Economic Development Corporation

⁸ Source: 1996 Dun and Bradstreet (D&B) data for bank’s assessment area

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Examiners evaluated San Benito Bank's performance under the Community Reinvestment Act based upon four of the five performance criteria for small banks. These include loan volume in comparison to deposits (Loan-to-Deposit Ratio), lending inside and outside the assessment area (Lending in Assessment Area), lending dispersion throughout the geographies within the assessment area (Geographic Distribution of Loans) and the distribution of lending to borrowers with different income levels and to businesses of different sizes (Lending by Borrower Income and Business Revenue). The bank's responsiveness to consumer complaints was not evaluated because no CRA-related complaints were received during the period between examinations.

To evaluate the bank's performance, examiners reviewed a sample of the bank's commercial and farm loans. A total of 349 loans were reviewed. The loans were extended during the period beginning January 1997 through September 1998, and consisted of 299 business and 50 farm loans.

The initial assessment considered the entire loan sample to determine the volume of lending within the bank's assessment area. Only those loans extended inside the bank's assessment area were used to evaluate the geographic distribution of lending. Examiners also collected the revenues of businesses with loans inside the assessment area to evaluate the bank's lending by businesses of different size. In this regard, the bank's record was evaluated by utilizing only those loans extended inside the bank's assessment area.

Loan-to-Deposit Ratio

San Benito Bank's loan-to-deposit is reasonable given its resource capacity, start-up branch operations and the competitive market in which it has expanded. The analysis supporting this conclusion consisted of an evaluation of the lending volume in comparison to the bank's deposit base. An average loan-to-deposit ratio was derived by using the bank's net loans to total deposits.

The bank's assessment area consisted of only one similarly situated peer bank, which had a comparable business focus asset size and portfolio composition.

Based on financial data obtained from the Consolidated Reports of Condition, the following table shows the average loan-to-deposit ratios for the bank and the peer for the past eight quarters, December 1996 through September 1998:

	San Benito Bank	Peer Bank
Loan-to-Deposit Ratio	61%	65%

The table reflects a lower average loan-to-deposit ratio for San Benito Bank as compared to the peer bank. Similarly state and national peer loan-to-deposit ratios rank above the bank at 67 percent and 72 percent, respectively. An in-depth review of the bank's loan and deposit volume

activity since its Gilroy branch opened in October 1997 shows that deposit growth has outpaced loan growth. This profile was evident through September 30, 1998 and is not atypical of institutions with start-up branch operations. Management's future growth strategy includes a focus on developing lending relationships through acquired deposit customers.

Lending in Assessment Area

The majority of San Benito's credit extensions fall inside its defined market areas. As one of the few remaining independent, community banks in the area, this profile is consistent with standards for satisfactory performance.

As mentioned previously, the bank has established an additional assessment area since the previous examination and the evaluation of performance in this category included both the San Benito County assessment area as well as the Santa Clara assessment area.

The evaluation under this assessment category was based on an analysis of 349 loans, the results of which are depicted in the following table:

Product	Business				Farm			
	Assessment Area	#	%	\$000's	%	#	%	\$000's
San Benito County	231	77	20,430	63	42	84	4,006	71
Santa Clara	21	7	2,676	8	3	6	1,366	24
Total Inside	252	84	23,106	71	45	90	5,372	95
Total Outside	47	16	9,292	29	5	10	310	5
Total Loans	299	100	32,398	100	50	100	5,682	100

As reflected in the table, 84 percent by number and 71 percent by dollar amount of the business loans sampled were within the bank's assessment area. The agricultural lending profile, with 90 percent by number and 95 percent by dollar amount of the farm loans originated inside assessment areas, is consistent with expectations given the farming base of the areas in which the bank services.

The bank's focus on local lending is apparent, although in comparison to the previous examination results a decline was particularly noted in business credit. At the previous examination, 94 percent by number and 92 percent by dollar amount of the business loans sampled were within the bank's assessment area. The farm lending concentration was similar to the previous examination with 93 percent by number and 97 percent by dollar amount of the farm loans inside the bank's assessment area.

Although the data evidences an increase in the percentage of loans originated outside the bank’s defined markets, the overall concentration within the assessment areas indicates that loan products offered by the bank are well matched with the local credit needs. Moreover, the dispersion of lending between the two assessment areas is consistent with the relative size of the markets and the tenure of the bank in those respective communities.

Geographic Distribution of Loans

San Benito Bank’s overall distribution of loans in census tracts of different income levels is good and consistent with standards for satisfactory performance. Particular strength was evident in its lending to low- and moderate-income tracts within its new Santa Clara assessment area.

San Benito County – Small Business and Small Farm Loans

Tract Income Level	Census Tracts		Small Business Loans		Small Businesses	
	#	%	#	%	#	%
Low	1 ⁹	11	0	0	0	0
Middle	3	33	72	31	487	44
Upper	5	56	159	69	631	56
Total	9	100	231	100	1,118	100

The table above reflects a good lending dispersion relative to the distribution of the geographies by income level and the number of businesses in these geographies. This profile reflects the bank’s presence throughout a market where it is an established lender.

Tract Income Level	Census Tracts		Small Farm Loans	
	#	%	#	%
Low	1	11	0	0
Middle	3	33	2	5
Upper	5	56	40	95
Total	9	100	42	100

The majority of the bank’s small farm loans were extended in upper income census tracts. This lending concentration corresponds to the location of the farms, which lie on the outskirts of the county. San Benito County’s largest geography is census tract 8.00, an upper income tract that covers almost three-quarters of the county. Fifty percent of all of the bank’s loans were

⁹ Tract 9.00 has a zero population (Diablo Mountain Range)

originated in this geography. Although precise statistics were not available regarding the number of farms in the county, comments from community contacts indicate that the bank is an ongoing source of financing for local farmers. In fact, examination findings disclosed that the bank not only originates financing to established farmers but also administers a program where below market rate financing is available to parents of children involved in farm animal raising projects sponsored by the Local 4H and Future Farmers of America associations.

Santa Clara County – Small Business and Small Farm Loans

Tract Income Level	Census Tracts		Small Business Loans		Small Businesses	
	#	%	#	%	#	%
Low	1	17	8	38	233	18
Moderate	2	33	7	33	451	35
Middle	3	50	6	29	606	47
Total	6	100	21	100	1,290	100

The distribution of the 21 loans made throughout the different geographies in Santa Clara was excellent as the majority, 71 percent, of the loans were extended in low- and moderate-income census tracts. This profile although limited in number, exceeds the percentage distribution of tracts by income level and is reasonable given the distribution of the businesses in those tracts. Given this demonstrated response to low and moderate geographies, management’s efforts to bolster overall loan volume in this new market should continue to benefit these geographies.

Tract Income Level	Census Tracts		Small Farm Loans	
	#	%	#	%
Low	1	17	0	0
Moderate	2	33	0	0
Middle	3	50	3	100
Total	6	100	3	100

Similar to its performance in San Benito County, the bank’s distribution of the small farm loans in the middle-income census tracts is consistent with the location of farming activity in the Santa Clara assessment area. The three middle-income tracts border the outskirts of the county from the northeast sections down to the southwest.

Lending by Business Revenue

San Benito Bank’s distribution of loans to businesses of different sizes meets standards for satisfactory performance given its financial capacity, resources and business strategy.

To determine a bank's performance in this category, consideration is given to the types of businesses that operate within the bank's assessment areas. As stated previously, 91 percent of the businesses within San Benito County, and 87 percent in Santa Clara are classified as small businesses. While there was no statistical data available to precisely indicate the number of farming enterprises in the assessment area, the dollar amounts of loans originated and the revenue amounts of the borrowing enterprises provide sufficient information to evaluate the bank's lending to these entities.

The bank's performance under this criterion was analyzed by reviewing the gross annual revenue data for a sample of the bank's business borrowers. For business loans, a statistical sample of 150 (60 percent) of the 252 loans inside the bank's assessment areas was selected. The sample consisted of 137 San Benito County loans and 13 from Santa Clara. With regards to the small farm loans, revenue was collected for all 45 loans inside the assessment area, 42 in San Benito County and 3 in Santa Clara.

San Benito County – Small Business and Small Farm Loans

Depicted in the following table is a breakdown of the loan sample by revenue size of business borrowers. Loans to businesses with revenues less than \$1 million were separately categorized and subtotaled to determine the extent of lending to small businesses.

Lending to Businesses of Different Sizes

Loan Amount	#	%	\$	%
\$0 to <= \$100,000	80	82	2,700,000	45
>\$100,000 to <=\$250,000	15	15	2,387,000	40
>\$250,000 to <=\$1,000,000	3	3	921,000	15
Sub-total:	98	100	6,008,000	100
Sub-total: Revenue < \$1 mill	98	71	6,008,000	47
Revenue > \$1 mill	39	29	6,778,000	53
Grand Total	137	100	12,786,000	100

As the table reflects 71 percent of the bank's loans were extended to small business owners. This figure, although a slight decrease from the previous examination's 80 percent, is still reasonable given that 91 percent of the businesses in the assessment area are small businesses. Moreover, the fact that the majority (82 percent) of the 98 loans was extended in amounts of \$100,000 or less indicates that the credit extended is aimed at the critical financing needs of the small business borrower.

Lending to Farms of Different Sizes

Loan Amount	#	%	\$	%
\$0 to <= \$100,000	18	72	668,000	30
>\$100,000 to <=\$250,000	6	24	1,144,000	51
>\$250,000 to <=\$500,000	1	4	413,000	19
Sub-total:	25	100	2,225,000	100
Sub-total: Revenue < \$1 mill	25	68	2,225,000	58
Revenue > \$1 mill	12	32	1,631,000	42
Grand Total	37 ¹⁰	100	3,856,000	100

The results in the preceding table indicate that 68 percent of the bank's loans were extended to small farmers. This percentage reflects a primary focus towards small farm enterprises, although it does show a decline when compared to the 88 percent cited at the previous examination. Nevertheless, this shift in concentration in part reflects the bank's ability, with increased lending capacity, to respond to growing farming entities. Moreover, the fact that the majority of the loans (72 percent) were in loan amounts equal to or less than \$100,000, evidencing the bank's continued commitment to respond to the critical financing needs of local small farms.

In addition to lending to for-profit small businesses, it should be noted that the bank has extended loans that promote community development. During the period between examinations, two loans to a non-profit entity engaged in education and assistance to low income individuals and families aggregating \$285 million were refinanced. Additionally, one loan for \$60,000 was extended to a non-profit corporation involved in providing childcare services to low- and moderate-income individuals residing in the county.

Given the degree, nature and individual dollar amount of loans extended to farming and business enterprises this lending pattern is reasonable.

¹⁰ Revenue was not available for 5 of the 42 farm loans

Santa Clara County – Small Business and Small Farm Loans

Lending to Businesses of Different Sizes

Loan Amount	#	%	\$	%
\$0 to <= \$100,000	9	90	396,000	57
>\$100,000 to <=\$500,000	0	0	0	0
>\$250,000 to <=\$1,000,000	1	10	300,000	43
Sub-total:	10	100	696,000	100
Sub-total: Revenue < \$1 mill	10	77	696,000	40
Revenue > \$1 mill	3	23	1,046,000	60
Grand Total	13	100	1,742,000	100

The table presents information that indicates that of the business loans sampled 77 percent were extended to small businesses. Although overall volume has been limited, this percentage reflects a reasonable focus on small businesses given the percentage (87 percent) of such entities within the assessment area. Additionally, 90 percent of these loans were extended in loan amounts of less than or equal to \$100,000 addressing credit needs of smaller enterprises articulated by a community contact.

In reference to farm loans extended in the Santa Clara assessment area, revenue data was only available for one of the three loans inside the assessment area. The loan was extended for \$469,000 and qualified as a small farm loan.

Although not included in its small business and farm loans, the bank also demonstrated its commitment to individuals of low- and moderate-income by extending an affordable housing loan of \$500,000 geared to meeting the housing requirements of such individuals residing in Gilroy.

Notwithstanding the limited volume, the distribution of all of the sampled loans in Santa Clara demonstrates management’s commitment to responding to all sectors of its community including those of low- and moderate-income.

RESPONSE TO COMPLAINTS

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

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS

The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations. It has established policies and procedures addressing the fair lending laws and regulations. Additionally, no fair lending violations were cited at this examination and there

was no evidence that San Benito Bank engages in any type of discriminatory practices or discouragement in its lending activities.