

PUBLIC DISCLOSURE

March 10, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Citizens State Bank of Santa Paula
12-06-1680-0000**

**948 Main Street
Santa Paula, CA 93060**

**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.

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 of Citizens State Bank of Santa Paula prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of March 10, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

INSTITUTION'S CRA RATING:

This institution's overall CRA (Community Reinvestment Act) performance is rated **Outstanding** based upon a review of its provision of credit to its community. Management has taken an affirmative role in identifying the credit needs of its entire community including moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The distribution of loans among borrowers of different income levels and the dispersion of loans throughout the assessment area are excellent.

Two isolated violations of the substantive provisions of the Equal Credit Opportunity Act were identified during the concurrent Compliance Examination. The overall CRA rating was not influenced by these findings.

The following table indicates the performance level of Citizens State Bank of Santa Paula with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	PERFORMANCE LEVELS for CITIZENS STATE BANK OF SANTA PAULA		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans	X		
Response to Complaints	There were no complaints to review		

DESCRIPTION OF INSTITUTION:

Citizens State Bank of Santa Paula is a wholly-owned bank located in Santa Paula, California with total assets of \$84 million². There are three offices; the main office and a branch office are located in Santa Paula, and a branch office is located in Fillmore. At this time, the bank has no merger or acquisition plans.

Gross loans represent the largest proportion of total assets at 48%, while securities comprise the next largest at 42%. The bank offers a full range of loan products and bank services. These include commercial loans, mortgage loans, credit cards, home equity lines of credit, and consumer purpose installment loans. The following loan products comprise the bank's loan portfolio by dollar amount:

Commercial / Agriculture	44%
Secured by Residential Real Estate	44%
Consumer Purpose Loans	9%
Construction	3%

The primary business focus of the bank is commercial lending; however, due to lower interest rates, the bank has funded a large number of refinancing and home improvement loans secured by residential real estate. In addition, while consumer purpose loans make up only 9% of the total dollar volume of the bank's loan portfolio, a large number have been extended since the previous examination. Therefore, examiners determined that consumer purpose loans are also a significant part of the bank's lending activity. The CRA evaluation was based on a review of business, consumer, and residential real estate loans reported under the Home Mortgage Disclosure Act ("HMDA loans").

There are no legal impediments or self imposed restrictions that would adversely affect the bank's ability to lend. For the past three Community Reinvestment Act evaluations, the bank has received an outstanding rating.

DESCRIPTION OF ASSESSMENT AREA:

Citizens State Bank of Santa Paula's assessment area is located in the Ventura Metropolitan Statistical Area (MSA). The bank's assessment area is comprised of 12 census tracts, eight of which are moderate-income and four middle-income. The MSA contains 130 census tracts and the bank's assessment area represents approximately 9% of this total. A significant portion of the assessment area consists of agricultural farm land and mountainous terrain.

²All balance sheet figures are taken from the December 31, 1996 Consolidated Report of Condition (Call Report).

The assessment area includes the cities of Santa Paula, Fillmore, and unincorporated Piru and has a total population of 70,219 which represents 11% of the MSA. Within the assessment area, 35% of the population live in middle-income census tracts and 65% live in moderate-income census tracts.

Overall, family incomes in the assessment area do not compare favorably to the MSA as a whole. The median family income in the bank's assessment area is \$39,089 compared to \$50,103 for the MSA. Low-income families represent the largest percentage of families within the assessment area at 28%, followed by moderate-income at 23%, middle-income at 24%, and upper-income at 24%. By contrast, upper-income families represent the largest percentage of families in the MSA at 38%, followed by middle-income at 25%, moderate at 19% and low-income at 18%. The following table reflects the distribution of families by income residing in moderate- and middle-income census tracts for the assessment area.

Census Tract	Family Income			
	Low	Moderate	Middle	Upper
Moderate	74%	66%	63%	47%
Middle	26%	34%	37%	53%

The most prominent industries are agriculture, city and federal government, service industry, manufacturing, and construction. The largest employers are:

<u>Employers</u>	<u>Number of Employees</u>
Limoneria Associates	250-499
Santa Paula Memorial Hospital	250-499
DW Burhoe Construction Inc.	100-249
Harmony Construction of California	100-249
KMart Corporation	100-249
Twyford Plant Laboratories	100-249

Data from the 1990 Regional Economic Information System for the MSA reveals that businesses employing less than 50 people make up 96% of all establishments. Small businesses³ make up a large portion of businesses within the bank's assessment area as well. For the City of Santa Paula, business license information indicates there are approximately 1,750 businesses in the city and approximately 50% have gross receipts of less than \$40,000 per year. Less than 100 businesses grossed as much

³Small businesses are defined as those with less than \$1 million in gross annual revenues.

as \$1 million.⁴

The makeup of the labor force and level of education within the assessment area presents many challenges to the bank in extending credit. Most of the labor force within the assessment area are unskilled and work in the agriculture industry. Additionally, there is a lack of educational attainment within the bank's assessment area as compared to that of the MSA as a whole. For residents in the City of Santa Paula, 23% have less than a 9th grade education compared to 9.8% for the MSA and individuals in the city with a college or professional degree represent 16% of the population compared to 32% for the MSA. Given the demographic characteristics of the bank's assessment area, the bank is challenged to provide innovative loan products and services that would accommodate the credit needs of the assessment area population, consistent with the safe and sound operation of the bank.

Citizens State Bank of Santa Paula is the only financial institution of its size and business focus operating within its assessment area. Two of the state's largest banks, Wells Fargo Bank and Bank of America, operate full service branches in Santa Paula and Fillmore. However, the Wells Fargo Branch in Santa Paula is moving to a local grocery store and the Fillmore Branch of Bank of America will close within the next six months.

To gain further insight and information about the economic situation and credit needs of the area, an individual from the City of Santa Paula's local government was contacted. The contact identified loans for start-up businesses and to fund expansion of existing businesses as the primary credit needs of the community. The contact believed that the City of Santa Paula and the surrounding communities, while not in a recession, have not had significant economic growth like other smaller cities. Consequently, this has had an effect on the ability of businesses to borrow funds because of the low level of revenue generated by most local businesses. Considering the challenges facing lending to small businesses in the area, and the relatively low level of business revenue generated by local businesses, community contact believes that local financial institutions are doing what they can to meet the credit needs of the community. The community contact made reference to Citizens State Bank of Santa Paula as a local community bank that is active in the community and responsive to the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

To understand the level and volume of the bank's lending activities, information was reviewed regarding the business focus of the bank, its lending environment, and the economic condition of the area. Information from this review enabled examiners to evaluate the performance of the bank by considering the internal and external factors

⁴Statistical information extracted from the "Community Profile" obtained from the City of Santa Paula Economic Development Department.

which affect banking in the assessment area.

A financial institution's performance with respect to the Community Reinvestment Act is evaluated based on a review of the geographic and demographic distribution of major loan products. The major loan products of Citizen State Bank of Santa Paula are commercial, consumer and HMDA loans.

Since the previous compliance examination (7/31/95), the bank has extended 272 consumer purpose loans and 93 business purpose loans. For the HMDA reportable loans, examiners selected all originations since the previous examination which totalled 61 loans. The evaluation of the criteria "Lending in the Assessment Area" was based on the entire universe of loans (426). For the review of the criteria "Geographic Distribution" and "Lending to Borrowers of Different Income Levels and Businesses of Different Sizes," a statistical sample of consumer and business purpose loans extended within the bank's assessment area was used; the numbers were 117 and 63 respectively. Due to the size of the loan sample for HMDA loans, all 61 loans were used in the analysis.

LOAN TO DEPOSIT RATIO:

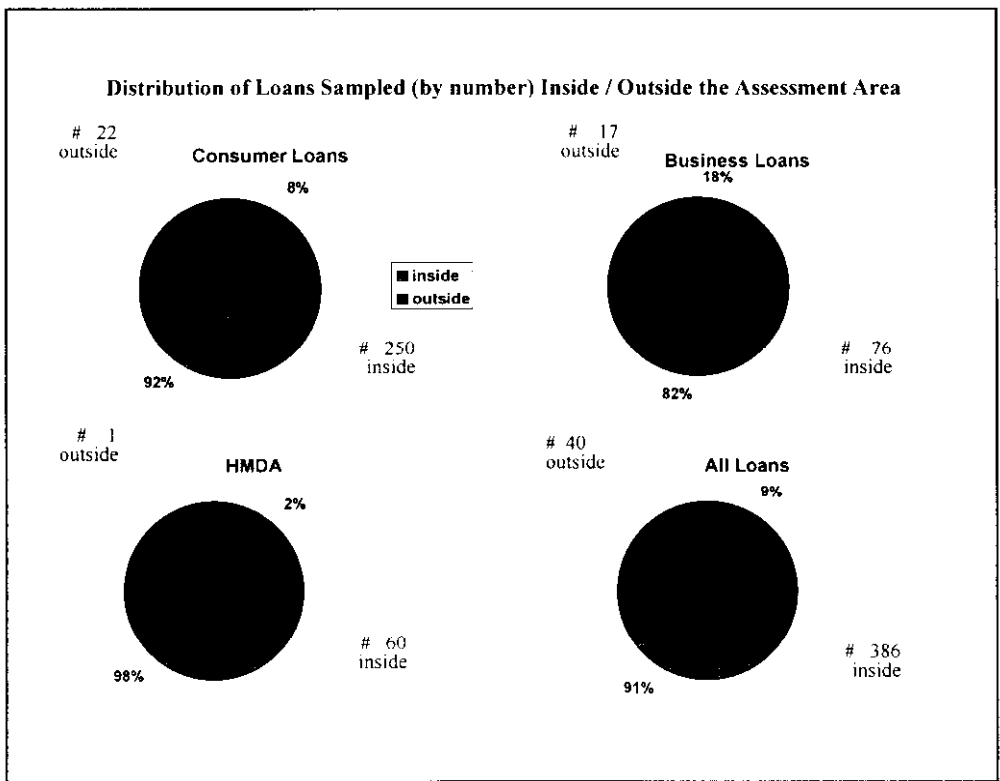
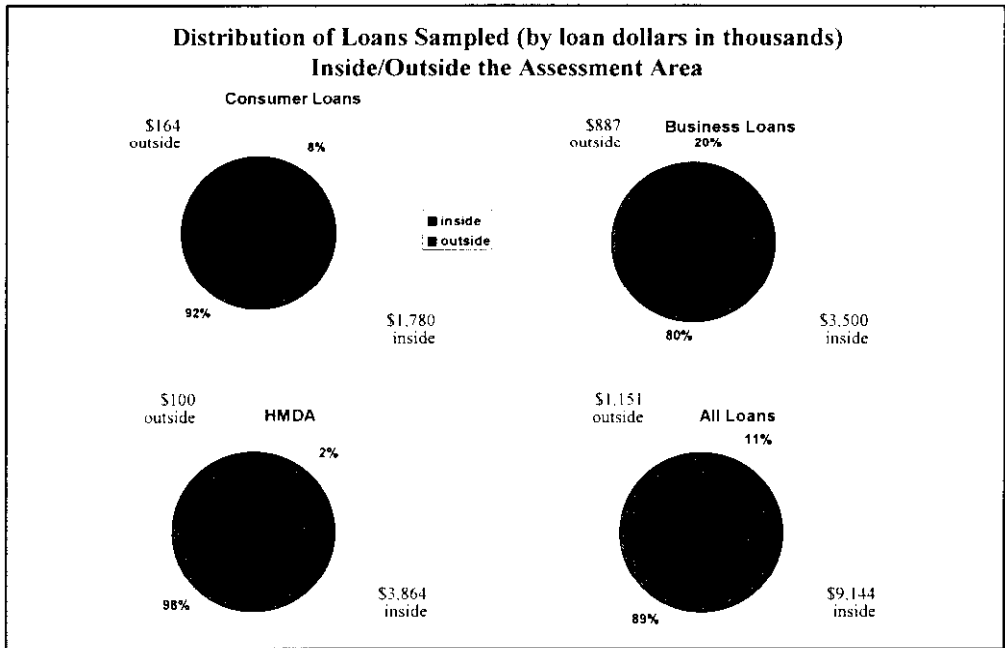
To determine the bank's loan-to-deposit ratio, information from the bank's quarterly CALL reports dating back to the previous compliance examination was used. For this analysis, the bank's net loans were measured against its total deposits. The loan-to-deposit ratio for each of the last seven quarters (6/95 to 12/96) was then averaged to get an overall average loan-to-deposit ratio for the period under review. This figure is 53%.

Due to the economic conditions of the assessment area, the bank's loan-to-deposit ratio is low and even lower than the national average for banks of similar asset sized. As previously mentioned, the median family income in the bank's assessment area is \$39,089 which is well below the median family income of \$50,103 for the MSA. The percentage of low-income families within the assessment area is high at 28% which is considerably higher than the MSA and the state figures which are 18% and 21% respectively. In addition, the vast majority of businesses within the assessment area are small businesses with relatively low annual revenues. The median family income and business revenue makeup, as well as the total population of the assessment area, present challenges to the bank in extending credit. Moreover, the loans that are extended are typically small dollar amounts which has an insignificant effect on increasing the loan-to-deposit ratio.

Considering its size, business focus, lending opportunities, and the economic and demographic makeup of its assessment area, the bank's loan-to-deposit ratio is reasonable.

LENDING IN ASSESSMENT AREA:

Since the previous examination, the bank has extended a substantial majority of business, consumer and HMDA loans within its assessment area. The following charts reflect the percentages, by dollar volume and number of loans, of lending inside and outside of the assessment area for each loan type as well as the overall results.



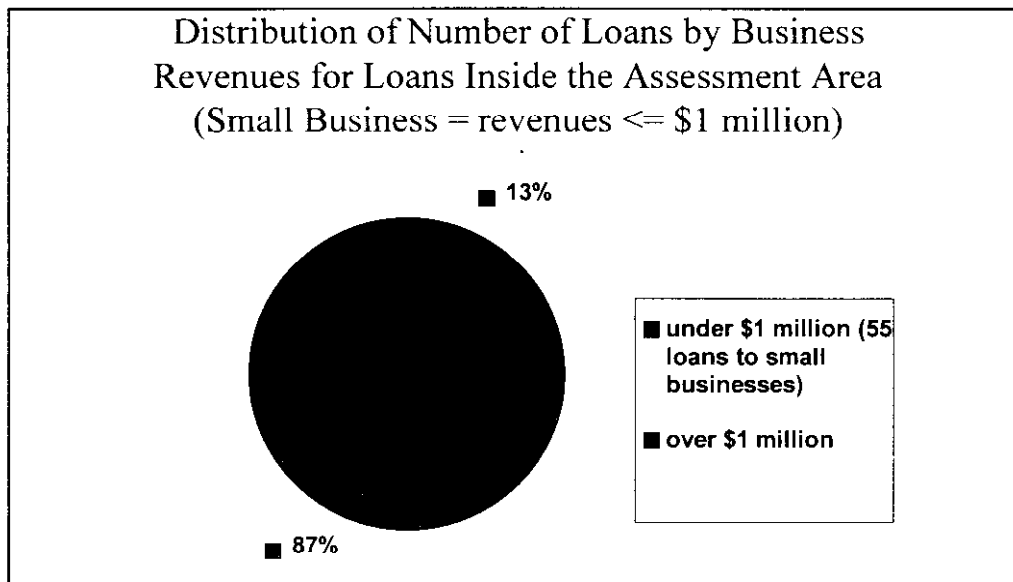
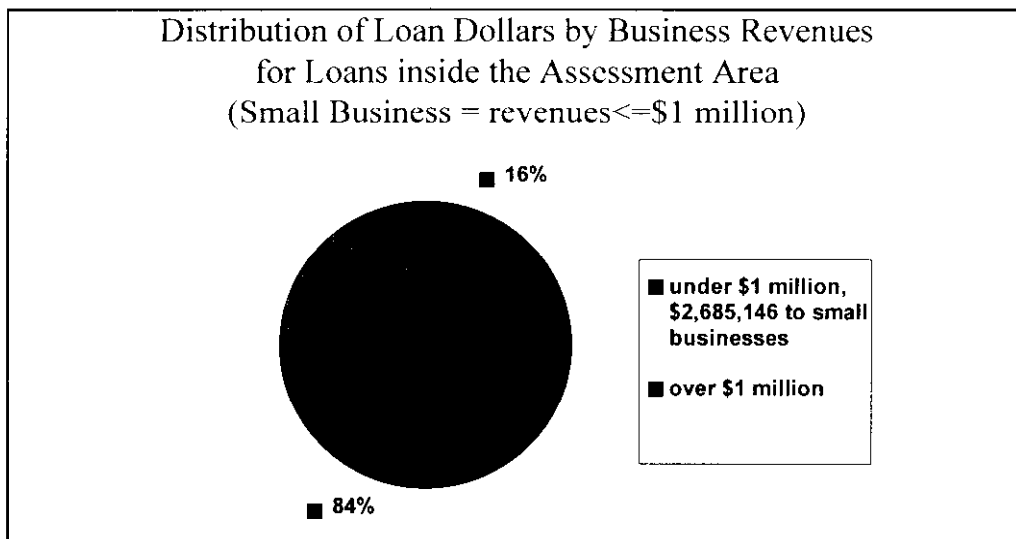
The concentration of lending within the assessment area exceeds standards for satisfactory performance.

LENDING BY BORROWER INCOME AND BY BUSINESS REVENUE:

Small Business Loans

For a business purpose loan to qualify as a small business loan, the original loan amount must be less than \$1 million and the business must have less than \$1 million in gross annual revenues.

Of the 63 loans totalling \$3.2 million in the sample, 87% by number and 84% by dollar volume were extended to small businesses. Loans to small businesses were in amounts less than \$1,000,000, and, as demonstrated by the following chart, the vast majority (87%) were less than \$100,000.



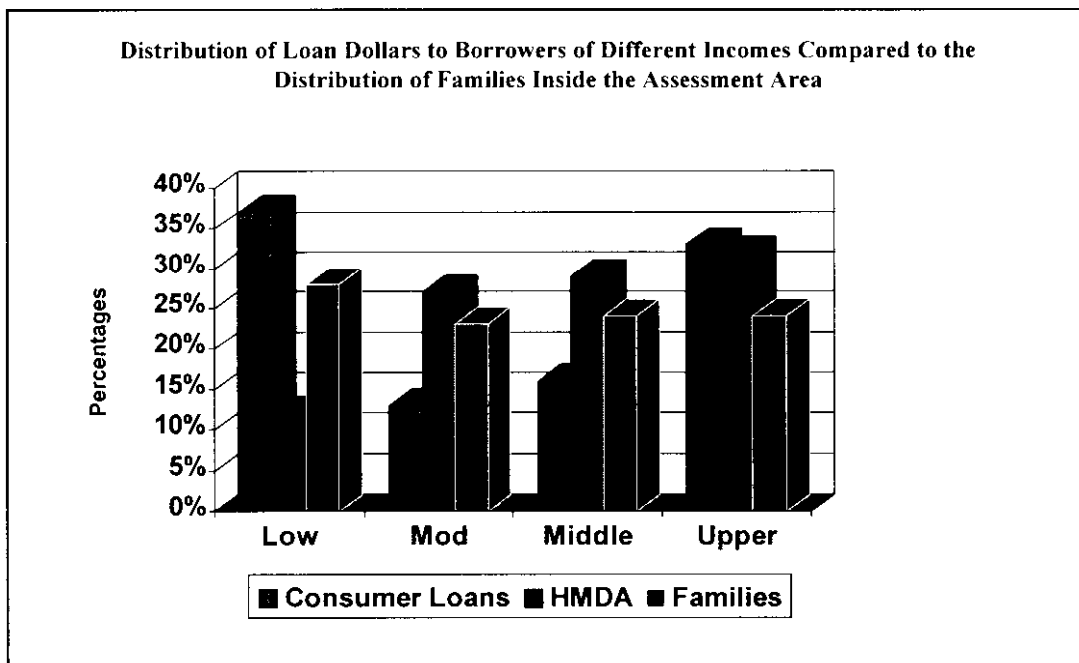
The bank's business lending demonstrates excellent responsiveness to small business owners.

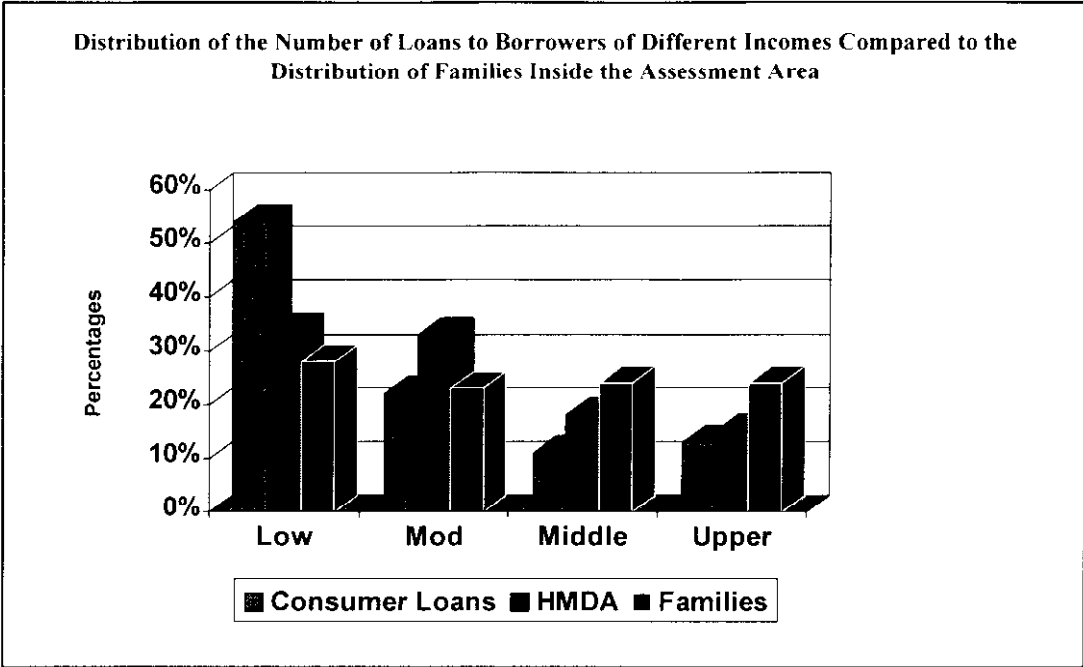
Consumer Loans and HMDA Loans

In the evaluation of consumer purpose and HMDA loans, the income level of borrowers within the assessment area was broken down into low-, moderate-, middle-, and upper-income categories.

For consumer loans, the data show that the largest percentage of loans were to low-income and moderate-income borrowers. Of the 117 loans sampled, 63 (54%) were to low-income individuals and 26 (22%) were to moderate-income borrowers. HMDA lending shows similar patterns. Of the 61 HMDA loans reviewed, 21 (34%) were to low-income borrowers and 20 (33%) were to moderate-income borrowers.

The two charts that follow compare the percentages both by dollar volume and number of consumer purpose and HMDA loans to the percentage of families in each income category.





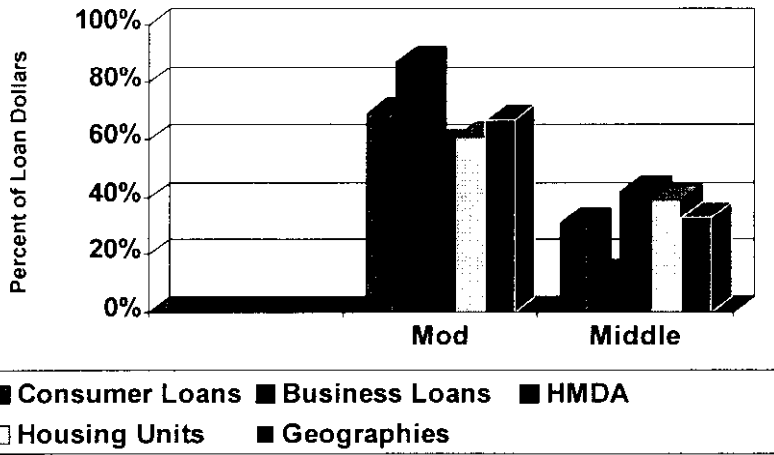
Proportionately, more consumer and HMDA loans were extended to low-income families than to any other group. Considering the challenges inherent in lending to low-income borrowers, the bank's performance is considered excellent.

GEOGRAPHIC DISTRIBUTION OF LOANS:

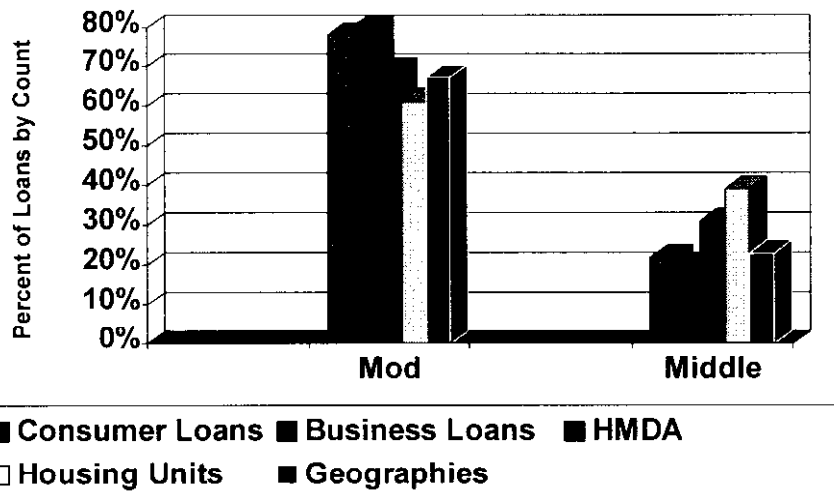
The bank's assessment area consists of 12 census tracts, eight are moderate-income and four are middle-income census tracts. In reviewing the distribution of the bank's lending throughout its assessment area, no significant gaps in lending were evident. In the loan sample, only one moderate income census tract (census tract number 12.04) had no lending activity. Information from the community contact and bank management, in addition to examiner observation, indicates that the area in question consists mainly of mountainous terrain and farm land and contains 3% of the assessment area population. Moreover, the area is not in close proximity to the bank's branches.

As demonstrated by the graphs that follow, the percentage (by number) of consumer and business loans extended in moderate-income tracts exceeds the percentage of moderate-income tracts in the assessment area. Moreover, the percentage of mortgage loans in moderate-income tracts mirrors the percentage of one-to-four family housing units in those tracts.

Geographic Distribution of Loan Dollars Compared to the Distribution of Geographies Inside the Assessment Area



Geographic Distribution of Number of Loans Compared to the Distribution of Geographies Inside the Assessment Area



There is an evident concentration of lending in moderate-income geographies. As mentioned previously, 74% of all low-income families and 66% of all moderate-income families live in moderate-income geographies. Despite the challenges inherent in lending to individuals with low- and moderate-incomes, the bank has continued to penetrate moderate-income census tracts to meet the credit needs of this segment of the population. The bank's dispersion of credit throughout its assessment area exceeds standards for satisfactory performance.

RESPONSE TO COMPLAINTS:

The bank has not received any complaints regarding its CRA performance; therefore, the bank's performance in responding to complaints could not be evaluated.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS:

Two isolated substantive violations of the anti-discrimination provisions of the Equal Credit Opportunity Act were noted during the concurrent compliance examination. The violations did not affect the CRA rating because it was determined that these incidents did not preclude any particular segment of the community from obtaining credit at this bank.

These violations occurred despite the fact that the bank has in place a second review process designed to detect fair lending violations. The bank, however, is committed to enhancing its review procedures to prevent the recurrence of violations of the anti-discrimination provisions of the Equal Credit Opportunity Act. Since the lending staff is experienced, bank management has not been diligent in providing on-going fair lending training. However, management stated that in the future, fair lending training will be incorporated as an integral part of each loan officer's training. Moreover, management has voluntarily taken appropriate corrective action with regard to the two issues noted at this examination.

Citizens State Bank of Santa Pauja - Assessment Area
 (a portion of Ventura County, CA)
 Examination Date: March 10, 1997

