

PUBLIC DISCLOSURE

JANUARY 6, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Cuyamaca Bank
DSBB# 12-06-1696-0000**

**9955 Mission Gorge Road
Santee, CA 92072-0387**

**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 **Cuyamaca Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of January 6, 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:

Effective January 1, 1996, as a small bank, Cuyamaca Bank became subject to the new performance standards under the revised Community Reinvestment Act (CRA). These new standards include a review of the bank's loan-to-deposit ratio, a review of the bank's credit extensions within and without its assessment area, a review of the geographic distribution of the bank's loans relative to the borrower's income level, and a review of the bank's effectiveness to responding to written complaints about its performance under the Act.

Cuyamaca Bank meets standards for satisfactory performance in four of the performance criteria evaluated. Its quarterly average loan-to-deposit ratio compared favorably to its peers; however, the bank's lending within the assessment is only marginally satisfactory. The bank's record of lending by borrower income and business revenue compared favorably to local demographics. Also, the geographic distribution of the bank's loan products meets standards for satisfactory performance in moderate-income neighborhoods (there are no-low-income tracts in the bank's assessment area). The bank did not receive any written complaints about its CRA performance; thus, this criteria was not evaluated. The bank's overall performance rating is satisfactory.

The following table indicates the performance level of Cuyamaca Bank with respect to each of the five performance criteria.

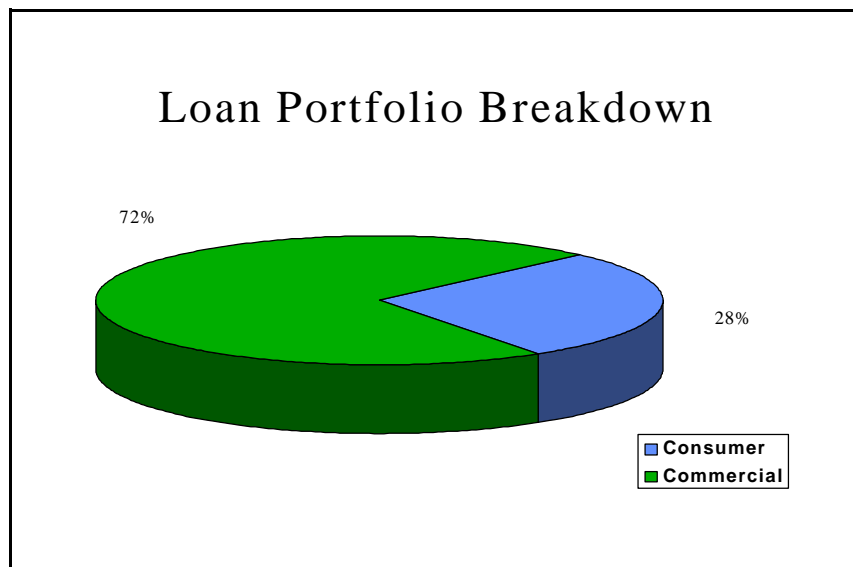
<p align="center">SMALL INSTITUTION ASSESSMENT CRITERIA</p>	<p align="center"><u>Cuyamaca Bank</u> PERFORMANCE LEVELS</p>		
	<p align="center">Exceeds Standards for Satisfactory Performance</p>	<p align="center">Meets Standards for Satisfactory Performance</p>	<p align="center">Does not meet Standards for Satisfactory Performance</p>
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	<p>No complaints have been received since the prior examination.</p>		

DESCRIPTION OF INSTITUTION:

Cuyamaca Bank is a wholly-owned community bank located in the City of Santee, California, in eastern San Diego County. The bank's main focus is commercial lending; however, it does offer consumer deposit and loan products. Cuyamaca Bank has two branches, the main office in the City of Santee, CA, and a branch office located in the nearby City of La Mesa, CA. As of September 1996, the bank's asset size was \$36.2 million with a loan-to-deposit ratio of 65%. A majority of the bank's asset portfolio mix is comprised of 59% loans, 13% securities, and 11% cash.

A review of the bank's loan portfolio shows a loan concentration in commercial and real estate lending, with few consumer loans. A breakdown of Cuyamaca Bank's loan portfolio from the September 31, 1996 Call Report is as follows:

Commercial Loans	72%
Consumer Purpose Loans	28%



At the current and

previous examinations, the bank received satisfactory CRA evaluations. There are no legal impediments that would limit the bank's lending activities or adversely affect the bank's ability to meet various community credit needs. Since the previous examination, the bank has not made an application for a merger or acquisition.

DESCRIPTION OF ASSESSMENT AREA:

A review of Cuyamaca Bank's assessment area shows that it does not contain any low-income census tracts. This is not an area of concern because the assessment area follows city borders, main arteries and natural boundaries and does not arbitrarily exclude any low-income areas that the bank would be expected to serve.

Cuyamaca Bank is located in a suburban area of San Diego County. The bank's assessment area includes the cities of Santee, El Cajon, La Mesa, Lakeside, and Lemon Grove.

The bank's assessment area consists of 69 census tracts. Of the 69 census tracts, 10 (14.5%) are moderate-income, 43 (62.3%) are middle-income, and 16 (23.2%) are upper-income tracts. On a dollar income basis, the bank's assessment area's median income is \$35,257, which is slightly higher than the MSA medium income at \$35,022. However, the assessment area median income is slightly lower than the state median income of \$35,798.

The cities that make up the bank's assessment area are residential communities supporting the City of San Diego. The major employers for each city are large retailers, such as Costco, Home Depot, Wal Mart, and local schools and city governments. Retail sales in the City of Santee have grown at an average of 4.5% over the past 10 years with major increases in building materials, apparel stores, and drug stores.

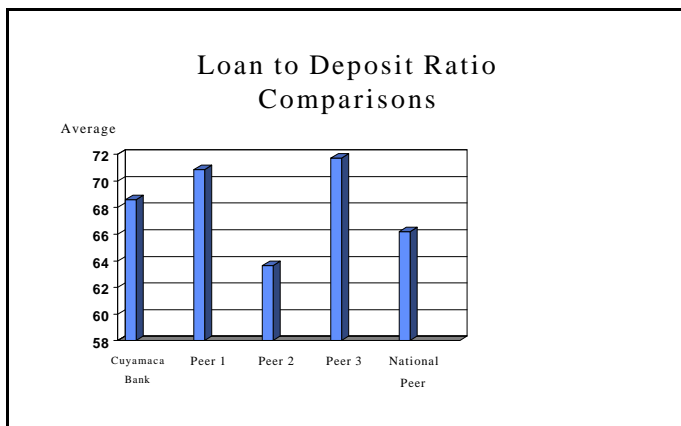
The City of Santee experienced a moderate annual population growth rate of 2.5%, ending the fiscal year 1995/96 with a total population of 54,394. In terms of income demographics by families within the assessment area, 17% are low-, 19% are moderate-, 25% are middle-, and 39% are upper-income families. The median age is 30.9 years; the city also has one of the highest percentages of youth population (28.7% are 17 years or younger) in the county. The median household income is \$42,199 - ranked number three in the nine-city "East County" area (El Cajon, Alpine, La Mesa, Santee, Lakeside, Lemon Grove, Spring Valley, Case de Oro and Rancho San Diego). Housing prices within the assessment area average \$167,609, substantially lower in comparison to the MSA at \$186,159.

Retail sales in the city grew to \$293 million in 1994, a gain of 10.4% over 1993 and total taxable sales grew to \$369.9 million, an increase of 10.8% over 1993 - ranking fourth and third, respectively, in the county. Unemployment figures for the assessment area are at 5.3%, compared to 5.6% for the County of San Diego and 6% for the State of California.

As part of this examination, examiners met with representatives of the City of Santee who indicated that low housing prices were bringing in many first-time home buyers, creating a demand for specialized home loan programs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

In order to evaluate Cuyamaca Bank's performance under the Community Reinvestment Act, a detailed analysis was completed covering all



aspects of the bank as well as its assessment area. Information was gathered from the bank, community contacts, and census data, to draw conclusions with regard to the local economy, credit demand, and the demographic characteristics of the assessment area. This information was compiled and used to assess the performance level of the bank in meeting the credit needs of its community.

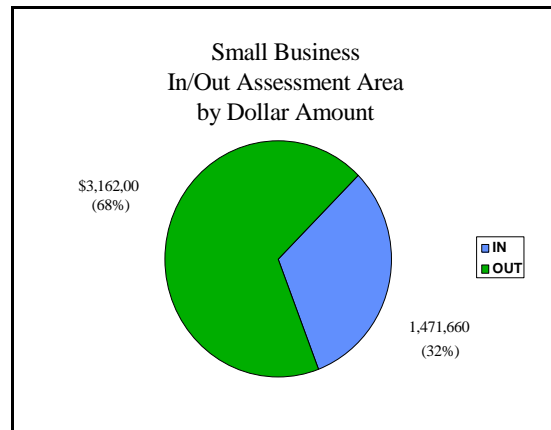
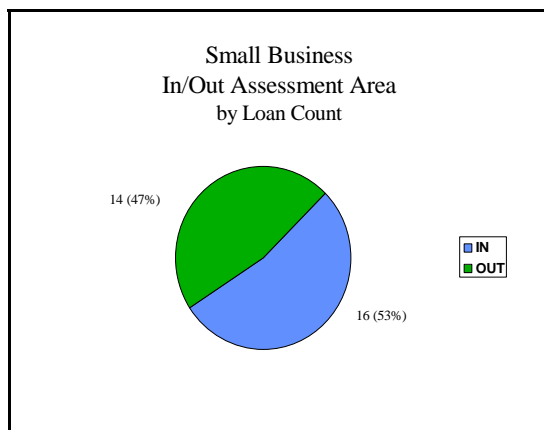
The examination consisted of a review of 30 small business and 50 consumer installment loans to determine which loans were made inside versus those made outside of the bank's assessment area. Only those loans which were extended inside the assessment area were analyzed for the purposes of determining the level of lending by borrower income, business size and for determining the geographic distribution of loans. This data was used to determine the bank's CRA performance under four assessment criteria: Loan-to-Deposit Ratio, Lending in Assessment Area, Lending to Borrower's of different incomes and to Businesses of Different sizes, and the Geographic Distribution of Loans.

LOAN TO DEPOSIT RATIO:

To determine Cuyamaca Bank's loan-to-deposit ratio, examiners chose three banks that were similar in asset size, geographic location and business focus. The performance of each of the similarly situated banks was analyzed and their eight-month average loan-to-deposit ratios are shown in the following graph.

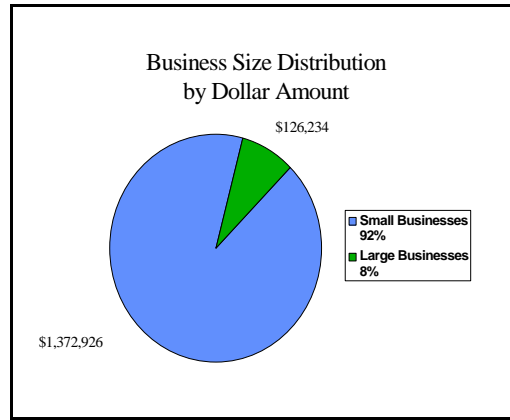
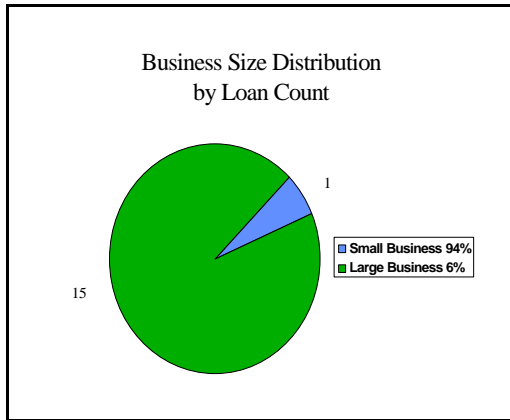
Cuyamaca Bank's average loan-to-deposit ratio of 68.61% compares favorably to the loan-to-deposit ratios of three banks that have similar loan portfolios, asset size and number of offices. The national peer bank's average loan-to-deposit ratio is 66.20%.

Considering the bank's asset size, current business focus and lending capabilities, it is evident that Cuyamaca Bank is extending credit at a reasonable level in comparison to its peers.



LENDING IN ASSESSMENT AREA:

A review of a sample of 30 small business and 50 consumer installment loans was conducted to determine the location of the bank's lending activities. The results of this analysis are as follows:

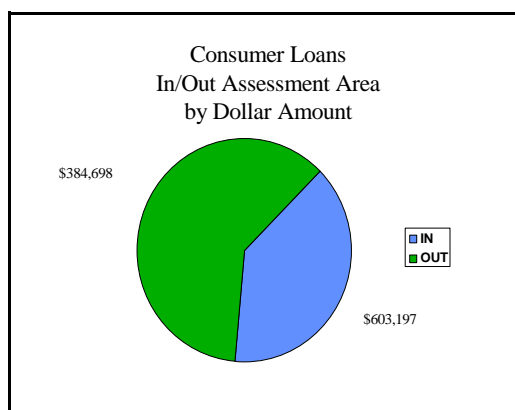
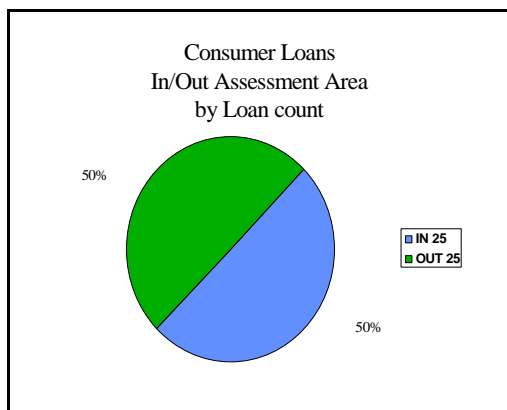


As the above graphs illustrate, the bank's loan concentration within the assessment area is marginal; 47% of the bank's small business loans are located outside the assessment area. Additionally, although the majority of the bank's small business loans are located within the assessment area, a difference of one or two loans could have altered the bank's assessment area concentration performance.

The bank's efforts to extend new loans have been reliant on referrals from bank directors and senior officers, few of whom live in the assessment area. Consequently, the resulting new loan business is originated outside the bank's assessment area. As a result, only a slight majority of loans originated since the previous examination are within the area.

According to a community contact, local lending opportunities are available. Retail sales increased 10.4% from 1993 to 1994 and housing prices have remained low, with the median housing price approximately \$20,000 less than the county average. The contact indicated that the low median housing value has generated a need for first-time home buyer financing, and the growth of local retail centers as well as the planned "town center" development shows the need for small business start-up and expansion financing.

With regard to consumer loans, 50% were extended outside the assessment area. In terms of dollar amounts, the bank extended \$384,698 (39%) inside the assessment area and \$603,197 (61%) outside the assessment area.



When the loan types (consumer and small business) are examined in aggregate, the

percentages indicate that the majority (51%) of all loans are made to borrowers who reside or conduct business within the bank's assessment area.

While this concentration of loans outside the assessment area is a concern, the bank's lending pattern of loans within the assessment area is satisfactory.

LENDING BY BORROWER INCOME AND BY BUSINESS REVENUE:

In determining the bank's lending to businesses of various sizes within the assessment area, the gross revenues of each business loan extended were analyzed. Cuyamaca Bank's loan portfolio is composed of mainly small business loans, representing 72% of all loans extended.

Examiners identified and reviewed 30 small business loans as a representation of the bank's commercial loan portfolio. Of the 30 loans sampled, 14 were extended outside of the assessment area. The remaining 16, extended within the bank's assessment area, were used to determine performance under this criterion.

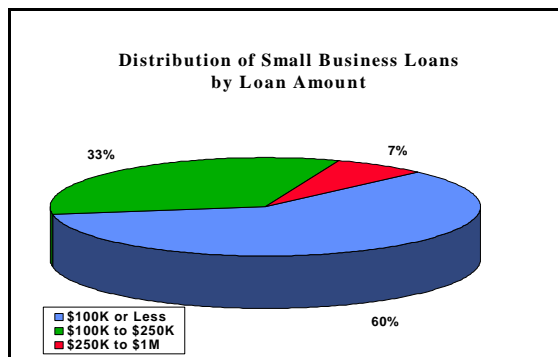
Of the 16 loans, 15 (94%) were extended to small businesses¹. In terms of dollar amounts, \$1,372,926 (92%) were extended to businesses with revenues less than \$1 million.

Further analysis revealed that 9 (60%) were for loan amounts of \$100,000 or less and 5 (33%) were for amounts greater than 100,000 but less than \$250,000. Based on the assumption that small business credit needs are typically for amounts of \$250,000 or less, this percentage (93%) of loans for amounts of \$250,000 or less demonstrates that the

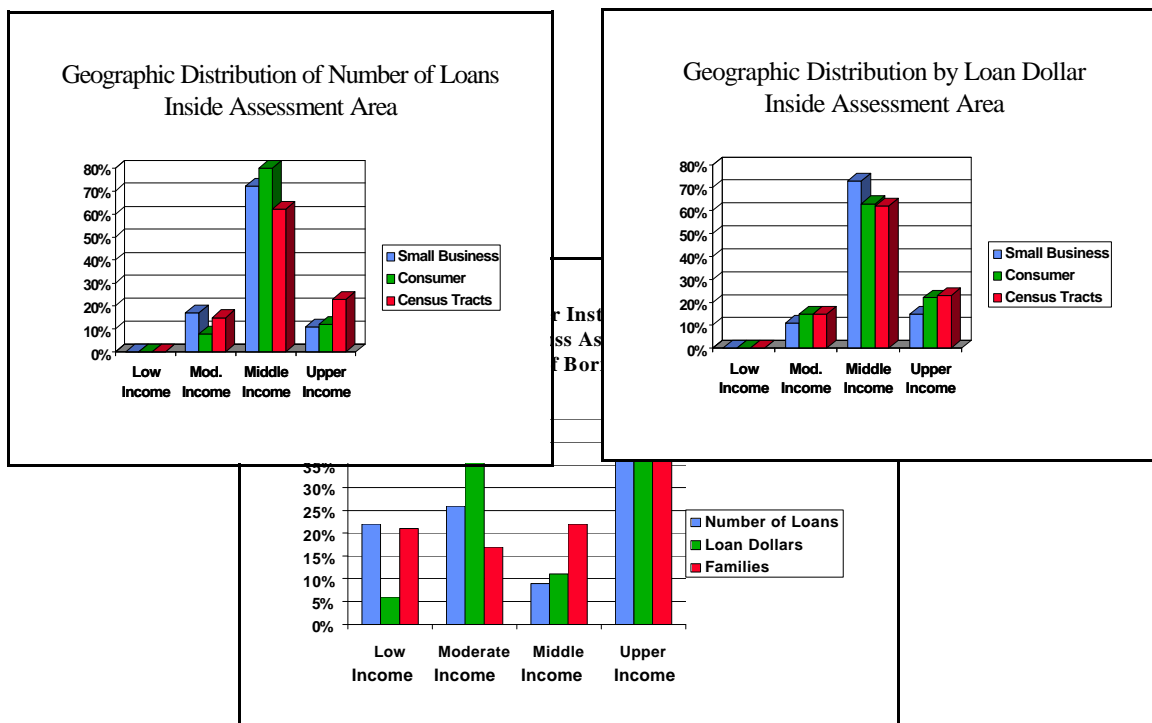
¹ Small Business loans are defined in Regulation BB, Section 228.42, as loans having annual revenues of "\$1 million or less."

bank is focusing on meeting the credit needs of the small business community.

A review of the bank's installment loan portfolio yields similar results. Examiners reviewed 50 installment loans, 25 of which were extended within the assessment area. A comparison of these loans shows that five (22%) were made to low-income borrowers, six (26%) were made to moderate-income borrowers, two (9%) to middle-income borrowers and ten (43%) to upper-income borrowers. In terms of dollar amounts, \$20,574 (6%) were to low-, \$141,534 (39%) moderate-, \$40,730 (11%) middle-, and \$162,164 (44%) to upper-income borrowers. When compared to the number of families of each income type within the bank's assessment area, the bank has a high percentage of loans (26% by count and 39% by dollar) to moderate-income families, which make up only 17% of the population.



In spite of the bank's marginal In/Out Ratio, the loans that the bank are making inside its assessment area are distributed among businesses and households of varying revenue and income levels; thus, the bank's performance in this category is reasonable.



GEOGRAPHIC DISTRIBUTION OF LOANS:

Cuyamaca Bank is well represented within its assessment area with no unexpected concentrations or conspicuous gaps in particular census tracts. From the sample of small business loans reviewed three, (17%) were made in moderate-income census tracts; 13 (72%) were made to middle-income census tracts; and two (11%) were made to upper-income census tracts. In terms of dollar amounts \$199,500 (11%) were extended in moderate, \$1,272,660 (73%) in middle, and \$270,000 (15%) in upper-income census tracts. The same analysis performed on consumer installment loans produced similar

results.

For consumer installment loans, the bank extended two (8%) loans in moderate-income tracts; 20 (80%) were extended in middle-income tracts; and three (12%) were extended in upper-income tracts. In terms of dollar amounts, \$56,980 (15%), \$244,524 (63%), and \$83,194 (22%) were extended to moderate-, middle-, and upper-income tracts, respectively.

The bank does not have any low-income census tracts in its assessment area. Overall, the bank's geographic distribution of loans meets standards for satisfactory performance.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS:

The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations such as the Fair Housing Act, the Equal Credit Opportunity Act, and the Home Mortgage Disclosure Act. While there were violations of the technical provisions of the Equal Credit Opportunity Act, they were isolated in nature and did not have a discriminatory effect. No violations were noted during this examination that would indicate that Cuyamaca Bank engages in any type of discrimination or discouragement in its lending and underwriting policies and procedures.