

PUBLIC DISCLOSURE

January 20, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Farmers & Merchants Bank of Central California
RSSD# 808260**

**121 West Pine Street
Lodi, California 95240-2184**

**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.

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INSTITUTION'S RATING

INSTITUTION'S CRA RATING:

Farmers & Merchants Bank of Central California is rated "OUTSTANDING"

The following table shows the performance level of Farmers & Merchants Bank of Central California with respect to the lending, investment, and service tests.

| PERFORMANCE LEVELS | <i>Farmers & Merchants Bank of Central California</i> | | |
|---------------------------|---|------------------------|---------------------|
| | PERFORMANCE TESTS | | |
| | LENDING TEST* | INVESTMENT TEST | SERVICE TEST |
| OUTSTANDING | | X | X |
| HIGH SATISFACTORY | X | | |
| LOW SATISFACTORY | | | |
| NEEDS TO IMPROVE | | | |
| SUBSTANTIAL NONCOMPLIANCE | | | |

*The lending test is weighted more heavily than the investment and service tests in determining the overall rating.

The major factors supporting the institution's rating include:

- Good responsiveness to assessment area credit needs
- Overall good distribution of loans in geographies of different income levels, to businesses of different sizes, and to borrowers of different income levels
- Strong community development lending that supported initiatives to promote affordable housing, job training to low- and moderate-income individuals, and other services targeted to low- and moderate-income communities
- Innovative and complex initiatives demonstrate excellent performance under the investment and services tests
- Continued leadership role in the community through the provision of services, investments, and grants

INSTITUTION

DESCRIPTION OF INSTITUTION

Farmers & Merchants Bank of Central California (F&M) is owned by Farmers & Merchants Bancorp, a one-bank holding company formed on April 30, 1999. F&M was established on May 24, 1916 and had total assets of \$1.1 billion as of September 30, 2003. The bank and its parent are headquartered in Lodi, California and serve the Central Valley from Sacramento to Merced. Over time, F&M has expanded its presence to include 17 branches in five California counties (Merced, Sacramento, San Joaquin, Stanislaus, and Yolo).

F&M provides a variety of financial services to residents of California's Central Valley. The institution offers an array of banking products, centering on commercial and agricultural loans. The bank offers residential mortgage products and has increased its presence in the home mortgage refinance market. In line with its target product mix, F&M's loan portfolio continues to evidence a high level of commercial credits, followed by farmland and agriculture lending as the institution's second area of focus. Although lending in both of these areas has declined between examinations, they still account for the largest share of the portfolio, comprising 65.3 percent of gross loans. Increases between examinations were seen in real estate mortgage loans and construction credits while nominal declines were noted in consumer and multi-family housing lending. The table below presents loan portfolio data as of September 30, 2003.

| LOAN TYPE | DOLLAR AMOUNT ('000s) | PERCENT OF VALUE |
|---|--------------------------|---------------------|
| Commercial/Industrial & Non-Farm Non-Residential Real Estate | \$365,230 | 47.2% |
| Farmland and Agriculture | 187,892 | 24.3% |
| Secured by 1-4 family Residential Real Estate | 125,609 | 16.2% |
| Construction | 73,828 | 9.5% |
| Consumer | 17,513 | 2.3% |
| Multifamily Housing | 3,380 | 0.4% |
| Leases | 1,123 | 0.1% |
| Total (Gross) | \$774,575 | 100.0% |

F&M serves three assessment areas: Stockton-Lodi, Modesto-Merced, and Sacramento-Yolo. Each of these assessment areas includes portions of their respective counties. Although assessment area labels have not changed since the 2002 CRA review, the boundaries of Stockton-Lodi assessment area were expanded as a result of the addition of the Lincoln Village branch in September 2002. Up from 24 tracts at the previous examination, the assessment area now includes 47 of San Joaquin County's 114 census tracts.

F&M's reported loan volume in the Stockton-Lodi assessment area during the period of October 1, 2001 to December 31, 2002 was 51 percent, rendering this assessment area its primary market. However, lending volume for the period of January 1, 2003 through September 30, 2003, illustrates a shift to the Modesto-Merced assessment area. Modesto-Merced now represents 46.5 percent of reported loans through the period ending September 30, 2003. During this time, the Stockton-Lodi assessment area fell to 38.0 percent of reported loan volume.

F&M received an outstanding CRA performance rating at its February 19, 2002 examination. There are no financial impediments that would inhibit F&M's ability to meet the credit needs of its communities, consistent with its business strategy, size and resources, and local economic conditions.

SCOPE OF EXAMINATION

F&M's CRA examination was conducted using large bank performance criteria. This examination evaluated performance under the lending, investment, and service tests. The lending test portion included a review of small business, small farm, and home mortgage loans originated between October 1, 2001 and September 30, 2003. Community development lending as well as investment and service activities were reviewed for all of 2002 and 2003.

The Stockton-Lodi and Modesto-Merced assessment areas received full-scope reviews, with Modesto-Merced weighted slightly more in the final analysis due to its concentration of loans, higher level of deposits, and equal number of branches. The Sacramento-Yolo assessment area received a limited-scope review because of its lower level of loans and deposits as well as significantly fewer branches. Consistent with F&M's focus on commercial and agriculture lending, small business and small farm loans carried greater weight in the evaluation. Because home mortgage refinance lending is a relatively new product for the bank and volumes will be driven in large part by fluctuations in interest rates, its weighting in the analysis was subordinated to the institution's small business and small farm lending. Other home mortgage loan products exhibited much smaller loan volumes and, therefore, were excluded from the analysis.

Because new census data for 2000 is now available, split reviews of geographic distributions were performed as part of this examination. Lending by income geography for the period October 1, 2001 through December 31, 2002, was evaluated using 1990 census data. Loans originated during the period January 1, 2003 through September 30, 2003 were analyzed using data from the 2000 census. Use of a split review for lending by income geography resulted in two sets of core tables for this criterion. Other tests and performance criteria, not dependent on particular geographic tracts, were reviewed using combined data for the entire evaluation period, resulting in a single core table for these metrics.

The scope of the evaluation is consistent throughout the report unless otherwise noted.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

The high satisfactory performance under the lending test is based on good overall lending levels with a high percentage of loans extended within the assessment areas. The distribution of loans in low- and moderate-income tracts also was good. Particular strengths were noted in the

record of lending to small businesses and farms. In addition, community development lending had a significantly positive impact by serving the needs of low- and moderate-income individuals.

Lending Activity

Overall lending levels are good considering the adverse economic conditions prevailing during the review period. Exhibit 1 provides a breakout of lending volume both by number of loans and dollar amount that shows F&M's primary product mix. One trend that emerged from the split analysis was a dramatic increase in home refinance lending. During the period of October 1, 2001 through December 31, 2002, the bank reported 52 loans of this type. However, from January 1, 2003 through September 30, 2003, 354 home refinance loans were originated. Additional training in refinance lending provided to loan officers and a shift in lending focus to emphasize home refinance credits accounted for this increase. These changes are in addition to economic trends relative to the low interest rate environment that existed in 2003. Low interest rates led to strong demand for home mortgage refinance products and allowed F&M to expand its lending in this area.

| EXHIBIT 1 | | | | |
|--|--------------|---------------|-------------------|---------------|
| SUMMARY OF LENDING ACTIVITY | | | | |
| EVALUATION PERIOD: OCTOBER 1, 2001 - SEPTEMBER 30, 2003 | | | | |
| Loan Type | # | % | \$ ('000s) | % |
| Small Business Loans | 759 | 41.93 | 119,227 | 41.99 |
| Small Farm Loans | 515 | 28.45 | 94,858 | 33.40 |
| Total Business-Related | 1,274 | 70.39 | 214,085 | 75.39 |
| HMDA Home Purchase | 28 | 1.55 | 8,034 | 2.83 |
| HMDA Refinance | 406 | 22.43 | 44,758 | 15.76 |
| HMDA Home Improvement | 90 | 4.97 | 2,649 | 0.93 |
| HMDA Multifamily | 12 | 0.66 | 14,441 | 5.09 |
| Total HMDA-Related | 536 | 29.61 | 69,882 | 24.61 |
| TOTAL LOANS | 1,810 | 100.00 | 283,967 | 100.00 |

Assessment Area Concentration

A substantial majority of loans, both by number of transactions as well as dollar volume, was made within the assessment areas. The following exhibit shows the number and dollar volume of loans extended within the designated assessment areas during the review period. The tables in Appendix B contain additional information regarding assessment area lending.

| EXHIBIT 2 | | | | | | | | |
|--|--------------|--------------|----------------|--------------|------------|--------------|---------------|--------------|
| LENDING INSIDE AND OUTSIDE THE ASSESSMENT AREAS | | | | | | | | |
| EVALUATION PERIOD: OCTOBER 1, 2001 - SEPTEMBER 30, 2003 | | | | | | | | |
| LOAN TYPE | Inside | | | | Outside | | | |
| | # | % | \$ ('000s) | % | # | % | \$ ('000s) | % |
| Small Business Loans | 635 | 83.66 | 92,290 | 77.41 | 124 | 16.34 | 26,937 | 22.59 |
| Small Farm Loans | 425 | 82.52 | 75,538 | 79.63 | 90 | 17.48 | 19,320 | 20.37 |
| Total Small Business | 1,060 | 83.20 | 167,828 | 78.39 | 214 | 16.80 | 46,257 | 21.61 |
| HMDA Refinance | 367 | 90.39 | 39,409 | 88.05 | 39 | 9.61 | 5,349 | 11.95 |
| Total HMDA-Related | 367 | 90.39 | 39,409 | 88.05 | 39 | 9.61 | 5,349 | 11.95 |
| TOTAL LOANS | 1,427 | 84.94 | 207,237 | 80.06 | 253 | 15.06 | 51,606 | 19.94 |

Geographic and Borrower Distribution

Overall, F&M has a good record of lending in different geographic areas. This good record also includes lending to businesses and farms of different sizes and to borrowers of different income levels. Performance context issues in the separate assessment areas determined the overall conclusion; the facts and data supporting that conclusion are presented within the separate assessment area analyses.

Loans were generally distributed throughout the assessment areas with no conspicuous lending gaps. This pattern was evidenced during both 1990 and 2000 census data periods for small business and small farm lending. Mortgage lending was generally representative of the distribution of owner-occupied housing in the assessment areas and the aggregate lending performance of other financial institutions.

Lending to small businesses and farms was good, with a significant portion of the loans representing small dollar amounts, which helped meet a stated need for small businesses and farms. Bank lending to borrowers of differing income levels was highlighted in the distribution of home mortgage refinance loans which, as shown in Table 7, is generally representative of the percentage of families within the various income categories. Home mortgage refinance lending to low-income families, although below the overall group percentage, was commensurate with or in excess of aggregate lending to this cohort.

Community Development Lending

F&M is a leader in making community development loans within its assessment areas. Specifically, as shown in Table 1, the bank extended 30 community development loans, totaling \$27.9 million, to support initiatives that promote affordable housing, job training, and revitalization of low- and moderate-income geographies. In addition, the bank participated in the California Community Reinvestment Corporation (CCRC), extending loans totaling

\$409,265. The performance strength in this criterion is based on the volume and complexity of loans, as well as their positive impact on the community.

INVESTMENT TEST

F&M's performance under the investment test is outstanding. Its investments have had a significant positive impact on the community, especially in the Stockton-Lodi assessment area. Table 8 illustrates that since the previous examination, the bank has made approximately \$450,000 in qualified community development investments and approximately \$217,049 in community development donations. In addition, there were \$4.4 million in prior period investments, including a state-wide investment of \$1.2 million, remaining on the books with another \$590,000 in unfunded commitments as of year-end 2003. These activities supported a variety of community development initiatives, including affordable housing, homeless shelters, health and medical services targeted to low- and moderate-income individuals, and economic development. Activities benefiting specific assessment areas are addressed under those particular portions of the evaluation.

SERVICE TEST

Overall performance under the service test is outstanding. Retail banking services are accessible to essentially all portions of the assessment areas. The provision of community development services is strong and demonstrates an outstanding responsiveness to meeting the needs of its markets.

Retail Banking Services

The delivery systems provide access to the bank's products and services for essentially all portions of its assessment areas, including low- or moderate-income census tracts. All branches offer uniform products. Hours of operation provide sufficient access to banking services and do not vary in a way that inconveniences certain portions of the assessment areas. Automated teller machines are maintained at all 17 branches with many branches having two machines. Drive-up banking facilities are available at many branches and internet banking, telephone banking, and banking by mail are also offered.

Community Development Services

F&M has taken a leadership role in the provision of community development services within its assessment areas. During the two year review period, 98 employees provided 3,827 hours of qualified community development services that included the following:

- financial expertise to community development agencies;
- financial literacy training; and
- credit quality analysis.

All of the above helped to address significant needs within the assessment areas. Participation is focused on community groups that provide affordable housing and support services to economically disadvantaged geographies and individuals. A more in-depth description of

community development services provided can be found under the appropriate assessment area conclusion.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS

The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations. Established policies and procedures are designed to ensure ongoing compliance with fair lending laws and regulations. The fair lending review performed concurrently with this examination did not evidence any type of discriminatory lending practices.

FULL-SCOPE ASSESSMENT AREA CONCLUSIONS

For each assessment area where a full-scope review was performed using the examination procedures.

Stockton-Lodi

DESCRIPTION OF OPERATIONS IN STOCKTON-LODI

The Stockton-Lodi assessment area, which is located in the Stockton-Lodi Metropolitan Statistical Area (MSA),¹ consists of portions of San Joaquin County. Specifically, it includes the city of Lodi in its entirety and portions of the cities of Stockton, Acampo, Escalon, Linden, Lockeford, and Ripon.

Of the bank's total deposits, this assessment area accounted for 52.9 percent as of June 30, 2003. F&M's deposit market share for the same date was 3.36 percent based on the Federal Deposit Insurance Corporation (FDIC) Summary of Deposits data.² It should be noted that market share data was based on the entire county of San Joaquin as opposed to F&M's partial county assessment area. The bank was ranked seventh out of 23 banks that comprise the market.

Due to the availability of new census data for 2000, split reviews of geographic distributions were performed as part of this examination. Lending by income geography for the period October 1, 2001 through December 31, 2002, was evaluated using 1990 census data. Loans originated during the period January 1, 2003 through September 30, 2003 was analyzed using data from the 2000 census. Other tests and performance criteria, not dependent on particular geographic tracts, were reviewed using combined data for the entire evaluation period.

1990 Census Analysis

Data from the 1990 census indicate that the population of the assessment area was 209,158. Additional 1990 census data and 2001 Dun & Bradstreet business demographic information regarding the income levels of the assessment area families, housing stock, business, and farm demographics used to develop the performance context is highlighted in Exhibit 3.

¹ Refer to glossary for definition of MSA.

² Federal Deposit Insurance Corporation, Institution Directory, *Summary of Deposits*, June 30, 2003 (accessed January 27, 2004); available from <http://www2.fdic.gov/sod>.

| EXHIBIT 3 | | | | | | | | |
|--|---------------------------|------------------------------------|--------------------------|--------------------------|--|----------------------|---------------------------|--------------|
| ASSESSMENT AREA DEMOGRAPHICS (1990 CENSUS) | | | | | | | | |
| STOCKTON-LODI | | | | | | | | |
| Income Categories | Tract Distribution | | Families by Tract Income | | Families < Poverty Level as % of Families by Tract | | Families by Family Income | |
| | # | % | # | % | # | % | # | % |
| Low-income | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 9,588 | 17.6 |
| Moderate-income | 6 | 12.8 | 6,000 | 11.0 | 1,342 | 22.4 | 9,163 | 16.8 |
| Middle-income | 26 | 55.3 | 32,414 | 59.4 | 3,094 | 9.5 | 11,683 | 21.4 |
| Upper-income | 14 | 29.8 | 16,155 | 29.6 | 573 | 3.5 | 24,135 | 44.2 |
| Tract not reported | 1 | 2.1 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Total AA | 47 | 100.0 | 54,569 | 100.0 | 5,009 | 9.2 | 54,569 | 100.0 |
| Income Categories | Housing Units by Tract | Housing Types by Tract | | | | | | |
| | | Owner-occupied | | | Rental | | Vacant | |
| | | # | % | % | # | % | # | % |
| Low-income | 0 | 0 | 0.0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Moderate-income | 8,571 | 3,230 | 7.4 | 37.7 | 4,821 | 56.2 | 520 | 6.1 |
| Middle-income | 44,250 | 25,977 | 59.8 | 58.7 | 16,717 | 37.8 | 1,556 | 3.5 |
| Upper-income | 21,905 | 14,268 | 32.8 | 65.1 | 6,650 | 30.4 | 987 | 4.5 |
| Tract not reported | 0 | 0 | 0.0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Total AA | 74,726 | 43,475 | 100.0 | 58.2 | 28,188 | 37.7 | 3,063 | 4.1 |
| Income Categories | Total Businesses by Tract | Businesses by Tract & Revenue Size | | | | | | |
| | | Less Than or Equal to \$1 Million | | Greater than \$1 Million | | Revenue Not Reported | | |
| | | # | % | # | % | # | % | # |
| Low-income | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Moderate-income | 661 | 14.6 | 547 | 14.1 | 98 | 17.8 | 16 | 14.2 |
| Middle-income | 2,748 | 60.6 | 2,351 | 60.7 | 330 | 59.9 | 67 | 59.3 |
| Upper-income | 1,125 | 24.8 | 972 | 25.1 | 123 | 22.3 | 30 | 26.5 |
| Total AA | 4,534 | 100.0 | 3,870 | 100.0 | 551 | 100.0 | 113 | 100.0 |
| Percentage of Total Businesses: | | 85.4 | | 12.2 | | 2.5 | | |
| Income Categories | Total Farms by Tract | Farms by Tract & Revenue Size | | | | | | |
| | | Less Than or Equal to \$1 Million | | Greater than \$1 Million | | Revenue Not Reported | | |
| | | # | % | # | % | # | % | # |
| Low-income | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Moderate-income | 31 | 4.7 | 22 | 3.8 | 9 | 11.8 | 0 | 0.0 |
| Middle-income | 486 | 73.5 | 424 | 73.1 | 57 | 75.0 | 5 | 100.0 |
| Upper-income | 144 | 21.8 | 134 | 23.1 | 10 | 13.2 | 0 | 0.0 |
| Total AA | 661 | 100.0 | 580 | 100.0 | 76 | 100.0 | 5 | 100.0 |
| Percentage of Total Farms: | | 87.7 | | 11.5 | | 0.8 | | |

2000 Census Analysis

The Stockton-Lodi assessment area expanded between examinations and now includes 51 tracts within San Joaquin County (up from 47). Since the 1990 census, tract income composition changed, with moderate-income tracts increasing from 12.8 percent to 19.6 percent. As is common to all F&M assessment areas, Stockton-Lodi includes portions of the county served.

The 2000 census income tract changes have affected two of the seven branches in the Stockton-Lodi assessment area. Specifically, the Linden, California branch is now situated in a middle-income tract and the new Lincoln Village branch, located in Stockton, California, is located in a moderate-income tract. As of the 1990 census, these tracts were upper-income and middle-income, respectively.

Housing availability remains strained in the Stockton-Lodi assessment area. Vacant housing units have declined in the period between census intervals. However, population growth has far outstripped the ability of vacant units to absorb the influx of new arrivals. Data from the 2000 census indicate that the population of the assessment area was 234,820, an increase of 25,662 over 1990's level. During this period the number of vacant housing units fell by only 293. Additional 2000 census data and 2003 Dun & Bradstreet business demographic information regarding the income levels of the assessment area families, housing stock, business, and farm demographics used to develop the performance context is highlighted in Exhibit 4.

| EXHIBIT 4 | | | | | | | | |
|--|---------------------------|------------------------------------|--------------------------|--------------------------|--|----------------------|---------------------------|--------------|
| ASSESSMENT AREA DEMOGRAPHICS (2000 CENSUS) | | | | | | | | |
| STOCKTON-LODI | | | | | | | | |
| Income Categories | Tract Distribution | | Families by Tract Income | | Families < Poverty Level as % of Families by Tract | | Families by Family Income | |
| | # | % | # | % | # | % | # | % |
| Low-income | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 12,109 | 20.4 |
| Moderate-income | 10 | 19.6 | 10,846 | 18.3 | 2,640 | 24.3 | 9,678 | 16.3 |
| Middle-income | 23 | 45.1 | 27,578 | 46.4 | 3,192 | 11.6 | 12,053 | 20.3 |
| Upper-income | 18 | 35.3 | 21,001 | 35.3 | 1,233 | 5.9 | 25,585 | 43.1 |
| Tract not reported | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Total AA | 51 | 100.0 | 59,425 | 100.0 | 7,065 | 11.9 | 59,425 | 100.0 |
| Income Categories | Housing Units by Tract | Housing Types by Tract | | | | | | |
| | | Owner-occupied | | Rental | | Vacant | | |
| | | # | % | % | # | % | # | % |
| Low-income | 0 | 0 | 0.0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Moderate-income | 16,084 | 6,342 | 12.9 | 39.4 | 9,091 | 56.5 | 651 | 4.0 |
| Middle-income | 38,521 | 22,218 | 45.4 | 57.7 | 15,052 | 39.1 | 1,251 | 3.2 |
| Upper-income | 27,921 | 20,429 | 41.7 | 73.2 | 6,624 | 23.7 | 868 | 3.1 |
| Tract not reported | 0 | 0 | 0.0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Total AA | 82,526 | 48,989 | 100.0 | 59.4 | 30,767 | 37.3 | 2,770 | 3.4 |
| Income Categories | Total Businesses by Tract | Businesses by Tract & Revenue Size | | | | | | |
| | | Less Than or Equal to \$1 Million | | Greater than \$1 Million | | Revenue Not Reported | | |
| | | # | % | # | % | # | % | # |
| Low-income | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Moderate-income | 1,169 | 25.3 | 990 | 25.2 | 157 | 27.4 | 22 | 19.5 |
| Middle-income | 2,013 | 43.6 | 1,717 | 43.7 | 249 | 43.5 | 47 | 41.6 |
| Upper-income | 1,435 | 31.1 | 1,224 | 31.1 | 167 | 29.1 | 44 | 38.9 |
| Total AA | 4,617 | 100.0 | 3,931 | 100.0 | 573 | 100.0 | 113 | 100.0 |
| Percentage of Total Businesses: | | 85.1 | | 12.4 | | 2.4 | | |
| Income Categories | Total Farms by Tract | Farms by Tract & Revenue Size | | | | | | |
| | | Less Than or Equal to \$1 Million | | Greater than \$1 Million | | Revenue Not Reported | | |
| | | # | % | # | % | # | % | # |
| Low-income | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Moderate-income | 30 | 4.4 | 24 | 4.0 | 6 | 7.4 | 0 | 0.0 |
| Middle-income | 396 | 57.5 | 351 | 58.2 | 42 | 51.9 | 3 | 60.0 |
| Upper-income | 263 | 38.2 | 228 | 37.8 | 33 | 40.7 | 2 | 40.0 |
| Total AA | 689 | 100.0 | 603 | 100.0 | 81 | 100.0 | 5 | 100.0 |
| Percentage of Total Farms: | | 87.5 | | 11.8 | | 0.7 | | |

San Joaquin County, which contains F&M's Stockton-Lodi assessment area, faces an ongoing economic struggle. As of 2002, county-wide unemployment was 10.0 percent.³ The unemployment rate for the Stockton MSA has worsened since 2002, rising to an estimated 10.3 percent⁴ for 2003. This trend is expected to continue through 2004, when the rate is projected to peak at 10.6 percent.⁵

The Stockton MSA's employment picture reflects 32.4 percent of the workforce engaged in services, 16.4 percent in trade, and 20.7 percent in government.⁶ In late 2003 Stockton's economy worsened as the area experienced declines in payroll growth coupled with outright layoffs. In addition, manufacturing employment fell during the second quarter of 2003.⁷ Stockton is marked by limited economic diversity and a high structural unemployment rate due to seasonal agricultural work.⁸ In addition, a low per capita income further weakens an economy marked by high unemployment.⁹

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. As indicated in Exhibit 4, Dun & Bradstreet reports that businesses with gross annual revenues of \$1 million or less accounted for over 85 percent of area businesses. Several local banks as well as larger regional and national institutions seek out this business, thus the area is characterized by a high level of competition. Lending to small farms is a second identified area credit need. The region surrounding the metropolitan areas of Stockton and Lodi is comprised of agricultural tracts. Farms having revenues of \$1 million or less located in these areas make up almost 88 percent of area farms. As is the case with small business lenders, several banks compete for small farm loans within this assessment area.

Housing in California has historically been unaffordable as strong job growth has exceeded new housing units since 1994. Although housing in Stockton is considered affordable relative to the more congested Oakland and San Jose metro areas,¹⁰ existing home prices in Stockton rose almost 49 percent during the period of 2000 through 2003.¹¹ During this period, personal income growth rose only 21.9 percent¹² or less than half of the rate of the increase in existing home prices. The income needed to purchase a median-priced home in California's Central Valley with a five percent down payment was \$48,605 as of the second quarter of 2003.¹³ Although this level is only 7.1 percent above the area median income in 2003, continuance of current trends where home price increases far outstrip wage growth will place increased pressure on home ownership rates, particularly among low- and moderate-income families.

³ *Précis: METRO: Stockton* (West Chester, Pennsylvania: Economy.com, Incorporated, August 2003).

⁴ *Ibid.*

⁵ *Ibid.*

⁶ *Ibid.*

⁷ *Ibid.*

⁸ *Ibid.*

⁹ *Ibid.*

¹⁰ *Ibid.*

¹¹ *Ibid.*

¹² *Ibid.*

¹³ California Budget Project, *Locked Out 2004: California's Affordable Housing Crisis*, January 2004 (accessed February 5, 2004); available from <http://www.cbp.org/2004/lockedout2004.pdf>.

Growing pressure on affordability has led to an identified need for affordable housing construction. The greatest obstacles to affordable housing construction are limited government subsidies necessary to make the developments viable and neighborhood opposition to proposed sites.¹⁴ Lenders do compete for the limited financing opportunities that arise.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN STOCKTON-LODI

LENDING TEST

Lending test performance in Stockton-Lodi is good. F&M demonstrated good responsiveness to community credit needs. The geographic distribution was good for small business and small farms loans. Home mortgage refinance lending was excellent with a strong penetration in moderate-income geographies. Lending to small business, small farms, and borrowers of different incomes was good. F&M's community development lending was excellent, meeting the most critical need for affordable housing financing.

Lending Activity

Lending activity in the Stockton-Lodi assessment area is good. As indicated in Table 1, the percentage of loans made in this assessment area was consistent with the percentage of deposits taken. Tables 2 through 4 present F&M's market share for the number of loans originated. In terms of small business dollars lent, market share was 3.31 percent when viewed against 1990 census data. This percentage is in line with the 3.36 percent county-wide market share the bank has in deposit dollars. Market share in small farm dollars lent was well above deposit dollars at 36.91 percent while market share of home refinance dollars lent was significantly below the market share of deposit dollars at 0.21 percent, reflecting F&M's core products of small business and small farm lending.

Lending Distribution by Geography

Overall lending distribution by geography in the Stockton-Lodi assessment area is good. Loans for the three products under review are generally spread among the various income geographies in accordance with the percentage of entities or are commensurate with aggregate lending rates.

Small Business Loans

The distribution of small business loans is good. There were no significant lending gaps and loans were dispersed throughout the Stockton-Lodi assessment area. As seen in Table 2a, small business lending, based on 1990 census, was strongest in moderate-income census tracts with a higher percentage of lending in these tracts than either the percentage of businesses or of aggregate lending. However, the number of small businesses located in moderate-income

¹⁴ Ibid.

census tracts increased significantly since the 1990 census. Thus, as seen in Table 2b, although small business lending in moderate-income census tracts increased between the 1990 and 2000 census reporting periods, the increase did not keep pace with the number of small businesses in these tracts. F&M's lending distribution among the remaining census tracts was generally commensurate with the percentage of business entities within same.

Small Farm Loans

The distribution of small farm loans is good. As seen in Table 3a and 3b, small farm lending was generally well-distributed among income census tracts. Also, the lending distribution in moderate-income census tracts increased over the review period even with a decrease in the percentage of farms in those geographies.

Home Mortgage Refinance Loans

The geographic distribution of home mortgage refinance loans is excellent. As seen in Table 4a and b, F&M's penetration of moderate-income census tracts is significantly above both the percentage of owner-occupied units and the aggregate. Distribution among other income tracts is generally commensurate with the percentage of owner-occupied units and/or the aggregate.

Lending Distribution by Business Revenue and Borrower Income

Small Business Loans

The distribution of loans to small businesses is good. As demonstrated in Table 5, a majority of loans was made to small businesses and in small dollar amounts. These loans for small dollar amounts met a stated need for small business lending. Although lending to businesses with \$1 million or less in gross annual revenue was below the percentage of all businesses with revenues at this level, F&M's lending percentage to these entities was more than twice the aggregate.

Small Farm Loans

The distribution of loans to small farms is good. As demonstrated in Table 6, a sizable majority of loans was made to small farms. Of these loans, the most prevalent were originations for less than \$100,000. Loans for small dollar amounts to small farms met a stated need for this assessment area. F&M's percentage of loans to small farms, although somewhat below the percentage of all farms, was significantly above the aggregate lending percentage.

Home Mortgage Refinance Loans

The distribution of home mortgage refinance loans to borrowers of different incomes is good. Mortgage refinance lending is only recently a focus for the bank and it faces a high level of competition from other institutions that specialize in mortgage lending. As shown in Table 7, the percentage of loans to low- and moderate-income borrowers compares favorably to the aggregate market as well as to the bank's market share of such loans. In all cases except upper-income borrowers, the bank's lending record is above the aggregate lending percentage.

Community Development Lending

F&M's community development lending in the Stockton-Lodi assessment area is excellent. As seen in Table 1, F&M funded 15 community development loans totaling \$18.6 million. This lending resulted in 130 housing units affordable to low- and moderate-income families and supported groups that assist low- and moderate-income families and geographies. These loans assisted in meeting significant credit needs in the community. This performance is particularly strong given the number of banks in the assessment area competing for the same community development lending opportunities.

INVESTMENT TEST

F&M makes use of innovative investments to support community development initiatives exhibiting excellent responsiveness to credit and community development needs. As shown on Table 8, there were 72 new investments and grants totaling \$620,270.

F&M demonstrated innovation and creativity through a complex lease purchase agreement enabling the Loel foundation to provide affordable housing to low-income seniors. The bank sought and continues to seek ways to meet the needs of residents on Lodi's eastside. This area is notable for a high number of low-income individuals and is not currently served by other institutions. F&M has made several donations to support groups working in this area including Lodi Boys & Girls Club, Century Assembly Adopt-a-Block, and City of Lodi Community Development Department.

Of all the investments and grants, 55 target low- and moderate-income individuals, nine are focused on affordable housing, and one is directed at small business development. F&M has shown leadership by making large donations and supporting these with board of director service.

Notable Community Development Investments:

Loel Foundation

The bank played a leadership role in helping to develop affordable housing for low-income seniors in the form of a five-unit apartment building. The bank structured a \$350,000 investment through its holding company to create a lease-purchase arrangement with the Loel Foundation. The investment addressed two needs, low-income senior housing and renovation of an apartment complex that had been a code enforcement concern for the City of Lodi.

One United Bank

One United Bank is a Certified Community Development Financial Institution. Its mission is to empower urban communities by uniting banks on a national level and offering affordable financial services to all. It believes all customers, regardless of their account balance, need and deserve affordable access to capital to achieve financial security. F&M invested \$100,000 in a certificate of deposit at this institution during 2003.

SERVICE TEST

F&M's provision of retail banking and community development services is excellent.

Retail Banking Services

F&M's branch distribution makes its services accessible to essentially all portions of the assessment area; branches are distributed in or near census tracts of all income levels. Information about branch locations relative to assessment area population may be found in Table 9. During the period between examinations, the bank opened a full service branch in the assessment area. There were no branch closures during this period. Business hours and services are tailored to meet the needs of the assessment area, with extended hours offered on Friday, and Saturday banking in selected offices, including the branch located in a moderate income tract.

The bank has tailored specific products to meet assessment area needs. These include:

- Community Business Checking for small businesses and non-profit organizations;
- EBT services for recipients of public assistance;
- a first time homebuyer savings program (IDEA); and
- service charge discounts for seniors and others subject to certain conditions.

Alternative delivery systems such as bank-by-phone and ATMs enhance this accessibility. ATM distributions by income of geographies are shown in Table 10. Hours and services do not vary in a way that inconveniences certain portions of the assessment area. In addition, multi-lingual services are available to all branches and the call center.

Community Development Services

F&M employees performed a significant number of community development services. Forty-eight employees were responsible for 35 community development services totaling 2,013 hours, reaching a total of 191 low- or moderate-income consumers. Community development services met various community development needs such as:

- offering technical assistance to affordable housing developers;
- providing financial education for low- and moderate-income individuals; and
- assisting groups that provide benefits to low- and moderate-income individuals.

Notable Community Development Services:

Lodi House

Lodi House is a community outreach program formed to provide assistance, advocacy, and support for homeless women and children in the Lodi community. Lodi House serves approximately 32 families on an annual basis. Two F&M bank officers are directors on the Lodi House board, one as president and the other as treasurer. Over 420 hours of community development service were provided during 2002 and 2003.

San Joaquin County Housing Authority

The Housing Authority of San Joaquin County is dedicated to providing and advocating for affordable, attractive, and safe living environments. In addition, opportunities for persons of very low- to moderate-income to become self-sufficient are provided. An officer of the bank served as a commissioner for the housing authority as the vice-chair. A total of 319 hours of community development service were dedicated toward this volunteer service during 2002 and 2003.

Modesto-Merced

DESCRIPTION OF OPERATIONS IN MODESTO-MERCED

The Modesto-Merced assessment area, which contains portions of both the Modesto MSA and the Merced MSA, consists of 99 census tracts within Stanislaus County and Merced County. The primary cities in the assessment area are Atwater, Merced, Modesto, Oakdale, and Turlock.

Of the bank's total deposits, this assessment area was the source of 30 percent as of June 30, 2003. Seven of the 17 branches are located here. At 4.09 percent of total market share, the bank's deposit base in this area ranks tenth out of the 24 banks operating within these two counties.¹⁵ Although large national banks do not have the same presence here as in the Stockton-Lodi assessment area, this two-county region is still very competitive due to the large number of financial institutions with a significant market share.

Due to the availability of new census data for 2000, split reviews of geographic distributions were performed as part of this examination. Lending by income geography for the period October 1, 2001 through December 31, 2002, was evaluated using 1990 census data. Loans originated during the period January 1, 2003 through September 30, 2003 was analyzed using data from the 2000 census. Other tests and performance criteria, not dependent on particular geographic tracts, were reviewed using combined data for the entire evaluation period.

1990 Census Analysis

Data from the 1990 census indicate that the population of the assessment area was 414,256. Additional 1990 census data and 2001 Dun & Bradstreet business demographic information regarding the income levels of the assessment area families, housing stock, business, and farm demographics used to develop the performance context is highlighted in Exhibit 5.

¹⁵ Federal Deposit Insurance Corporation, Institution Directory, *Summary of Deposits*, June 30, 2003 (accessed January 27, 2004); available from <http://www2.fdic.gov/sod>.

| EXHIBIT 5 | | | | | | | | |
|--|---------------------------|------------------------------------|--------------------------|--------------------------|--|----------------------|---------------------------|--------------|
| ASSESSMENT AREA DEMOGRAPHICS (1990 CENSUS) | | | | | | | | |
| MODESTO-MERCED | | | | | | | | |
| Income Categories | Tract Distribution | | Families by Tract Income | | Families < Poverty Level as % of Families by Tract | | Families by Family Income | |
| | # | % | # | % | # | % | # | % |
| Low-income | 2 | 2.5 | 584 | 0.6 | 271 | 46.4 | 21,586 | 20.4 |
| Moderate-income | 15 | 18.5 | 17,050 | 16.1 | 3,581 | 21.0 | 18,552 | 17.5 |
| Middle-income | 46 | 56.8 | 65,929 | 62.2 | 7,303 | 11.1 | 22,704 | 21.4 |
| Upper-income | 15 | 18.5 | 22,455 | 21.2 | 996 | 4.4 | 43,176 | 40.7 |
| Tract not reported | 3 | 3.7 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Total AA | 81 | 100.0 | 106,018 | 100.0 | 12,151 | 11.5 | 106,018 | 100.0 |
| Income Categories | Housing Units by Tract | Housing Types by Tract | | | | | | |
| | | Owner-occupied | | | Rental | | Vacant | |
| | | # | % | % | # | % | # | % |
| Low-income | 874 | 220 | 0.3 | 25.2 | 612 | 70.0 | 42 | 4.8 |
| Moderate-income | 23,830 | 10,919 | 13.1 | 45.8 | 11,589 | 48.6 | 1,322 | 5.5 |
| Middle-income | 89,926 | 50,999 | 61.3 | 56.7 | 34,639 | 38.5 | 4,288 | 4.8 |
| Upper-income | 30,303 | 21,000 | 25.3 | 69.3 | 8,104 | 26.7 | 1,199 | 4.0 |
| Tract not reported | 19 | 0 | 0.0 | 0.0 | 19 | 0.0 | 0 | 0.0 |
| Total AA | 144,952 | 83,138 | 100.0 | 57.4 | 54,963 | 37.97 | 6,851 | 4.7 |
| Income Categories | Total Businesses by Tract | Businesses by Tract & Revenue Size | | | | | | |
| | | Less Than or Equal to \$1 Million | | Greater than \$1 Million | | Revenue Not Reported | | |
| | | # | % | # | % | # | % | # |
| Low-income | 107 | 1.1 | 89 | 1.0 | 14 | 1.2 | 4 | 1.2 |
| Moderate-income | 2,110 | 21.0 | 1,764 | 20.6 | 276 | 23.9 | 70 | 20.6 |
| Middle-income | 5,786 | 57.6 | 4,922 | 57.5 | 662 | 57.4 | 202 | 59.6 |
| Upper-income | 2,012 | 20.0 | 1,755 | 20.5 | 194 | 16.8 | 63 | 18.6 |
| Tract not reported | 30 | 0.3 | 23 | 0.3 | 7 | 0.6 | 0 | 0.0 |
| Total AA | 10,045 | 100.0 | 8,553 | 100.0 | 1,153 | 100.0 | 339 | 100.0 |
| Percentage of Total Businesses: | | 85.1 | | 11.5 | | 3.4 | | |
| Income Categories | Total Farms by Tract | Farms by Tract & Revenue Size | | | | | | |
| | | Less Than or Equal to \$1 Million | | Greater than \$1 Million | | Revenue Not Reported | | |
| | | # | % | # | % | # | % | # |
| Low-income | 2 | 0.2 | 2 | 0.2 | 0 | 0.0 | 0 | 0.0 |
| Moderate-income | 80 | 6.6 | 69 | 6.3 | 10 | 10.0 | 1 | 11.1 |
| Middle-income | 795 | 66.0 | 719 | 65.7 | 71 | 71.0 | 5 | 55.6 |
| Upper-income | 327 | 27.2 | 305 | 27.9 | 19 | 19.0 | 3 | 33.3 |
| Total AA | 1,204 | 100.0 | 1,095 | 100.0 | 100 | 100.0 | 9 | 100.0 |
| Percentage of Total Farms: | | 90.9 | | 8.3 | | 0.7 | | |

2000 Census Analysis

Total tracts in the Modesto-Merced assessment area increased from 81 census tracts in 1990 to 99 tracts within Stanislaus and Merced Counties in 2000. Since the 1990 census, the tract income composition has changed, with increases in low-, moderate-, and upper-income tracts. A slight drop in middle-income tracts was noted. As is common to all F&M assessment areas, Modesto-Merced includes portions of the counties served.

The 2000 census income tract changes have affected two of the seven branches in the Modesto-Merced assessment area. Specifically, the Crossroads branch, located in Modesto, is now situated in an upper-income tract and the Turlock branch is positioned in a middle-income tract. As of the 1990 census, these tracts were middle-income and moderate-income, respectively.

The increase in population during the period between census intervals, has outpaced the increase in vacant housing units. Data from the 2000 census indicate that the population of the assessment area was 495,064, an increase of 80,808 over 1990's level. During this period the number of vacant housing units rose by ten. These trends have exacerbated an already strained housing situation. Additional 2000 census data and 2003 Dun & Bradstreet business demographic information regarding the income levels of the assessment area families, housing stock, business, and farm demographics used to develop the performance context is highlighted in Exhibit 6.

| EXHIBIT 6 | | | | | | | | |
|--|---------------------------|------------------------------------|--------------------------|--------------------------|--|----------------------|---------------------------|--------------|
| ASSESSMENT AREA DEMOGRAPHICS (2000 CENSUS) | | | | | | | | |
| MODESTO-MERCED | | | | | | | | |
| Income Categories | Tract Distribution | | Families by Tract Income | | Families < Poverty Level as % of Families by Tract | | Families by Family Income | |
| | # | % | # | % | # | % | # | % |
| Low-income | 3 | 3.0 | 2,296 | 1.9 | 873 | 38.0 | 25,863 | 21.2 |
| Moderate-income | 20 | 20.2 | 22,279 | 18.3 | 5,110 | 22.9 | 21,379 | 17.5 |
| Middle-income | 54 | 54.5 | 68,218 | 56.0 | 7,831 | 11.5 | 25,498 | 20.9 |
| Upper-income | 22 | 22.2 | 29,106 | 23.9 | 1,744 | 6.0 | 49,159 | 40.3 |
| Tract not reported | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Total AA | 99 | 100.0 | 121,899 | 100.0 | 15,558 | 12.8 | 121,899 | 100.0 |
| Income Categories | Housing Units by Tract | Housing Types by Tract | | | | | | |
| | | Owner-occupied | | | Rental | | Vacant | |
| | | # | % | % | # | % | # | % |
| Low-income | 3,556 | 1,011 | 1.0 | 28.4 | 2,345 | 65.9 | 200 | 5.6 |
| Moderate-income | 30,420 | 13,662 | 13.8 | 44.9 | 15,270 | 50.2 | 1,488 | 4.9 |
| Middle-income | 93,320 | 55,795 | 56.6 | 59.8 | 33,514 | 35.9 | 4,011 | 4.3 |
| Upper-income | 38,721 | 28,196 | 28.6 | 72.8 | 9,363 | 24.2 | 1,162 | 3.0 |
| Tract not reported | 0 | 0 | 0.0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Total AA | 166,017 | 98,664 | 100.0 | 59.4 | 60,492 | 36.4 | 6,861 | 4.1 |
| Income Categories | Total Businesses by Tract | Businesses by Tract & Revenue Size | | | | | | |
| | | Less Than or Equal to \$1 Million | | Greater than \$1 Million | | Revenue Not Reported | | |
| | | # | % | # | % | # | % | # |
| Low-income | 813 | 8.0 | 670 | 7.7 | 119 | 9.9 | 24 | 7.0 |
| Moderate-income | 1,502 | 14.7 | 1,272 | 14.7 | 180 | 15.1 | 50 | 14.6 |
| Middle-income | 5,291 | 51.8 | 4,510 | 51.9 | 601 | 50.3 | 180 | 52.5 |
| Upper-income | 2,615 | 25.6 | 2,230 | 25.7 | 296 | 24.7 | 89 | 25.9 |
| Total AA | 10,221 | 100.0 | 8,682 | 100.0 | 1,196 | 100.0 | 343 | 100.0 |
| Percentage of Total Businesses: | | 84.9 | | 11.7 | | 3.4 | | |
| Income Categories | Total Farms by Tract | Farms by Tract & Revenue Size | | | | | | |
| | | Less Than or Equal to \$1 Million | | Greater than \$1 Million | | Revenue Not Reported | | |
| | | # | % | # | % | # | % | # |
| Low-income | 8 | 0.6 | 5 | 0.4 | 3 | 2.9 | 0 | 0.0 |
| Moderate-income | 89 | 7.1 | 79 | 6.9 | 9 | 8.6 | 1 | 11.1 |
| Middle-income | 941 | 74.6 | 856 | 74.6 | 79 | 75.2 | 6 | 66.7 |
| Upper-income | 224 | 17.7 | 208 | 18.1 | 14 | 13.3 | 2 | 22.2 |
| Total AA | 1,262 | 100.0 | 1,148 | 100.0 | 105 | 100.0 | 9 | 100.0 |
| Percentage of Total Farms: | | 91.0 | | 8.3 | | 0.7 | | |

F&M's Modesto-Merced assessment area, which contains portions of Stanislaus and Merced Counties, struggled with a persistently high unemployment rate. As of 2002, unemployment in Stanislaus County was 11.4 percent.¹⁶ The Modesto MSA suffered continuing deterioration in its unemployment rate, moving to an estimated 11.5 percent¹⁷ for 2003. During this period, the Merced MSA unemployment rate remained flat and stood at an estimated 14.5 percent¹⁸ for 2003.

Modesto's employment picture shows 35.5 percent of the workforce engaged in services, 18.0 percent in trade, and 14.8 percent in manufacturing.¹⁹ Modesto also includes a large government sector, accounting for 16.7 percent of total employment.²⁰ Employment in the city of Merced is similar with 27.4 percent, 15.9 percent, and 19.8 percent in services, trade, and manufacturing, respectively.²¹ It too has a large government sector accounting for 24.4 percent of total employment.²² Both cities are marked by an overdependence upon volatile agriculture-related industries.^{23,24}

Demographic and economic information, including interviews with community representatives, indicated that small business and small farm financing, particularly loans in small dollar amounts, continues to be an area credit need. As indicated in Exhibit 6, Dun & Bradstreet reports that businesses with gross annual revenues of \$1 million or less accounted for 84.9 percent of area businesses while farms with annual revenues of \$1 million or less accounted for 91.0 percent of area farms. Several banks cultivate business in these assessment areas, thus competition is a factor in the bank's ability to lend.

Housing suffered from a lack of affordability in these areas much as it did state-wide. The cost of living in the City of Merced is slightly below the United States' average. However, existing home prices in the city increased 50.6 percent during the period between 2000 and 2003.²⁵ Increases in Modesto were more modest, with existing home prices rising 34.2 percent during the same period.²⁶ During this period, personal income growth rose only 17.2 percent and 24.2 percent in the cities of Modesto and Merced, respectively.^{27,28} The income needed to purchase a median-priced home in California's Central Valley with a five percent down payment was \$48,605 as of the second quarter of 2003.²⁹ Although this level is only 7.1 percent above the area median income in 2003, continuance of current trends where home price

¹⁶ *Précis: METRO: Modesto* (West Chester, Pennsylvania: Economy.com, Incorporated, August 2003).

¹⁷ *Ibid.*

¹⁸ *Précis: METRO: Merced* (West Chester, Pennsylvania: Economy.com, Incorporated, August 2003).

¹⁹ *Précis: METRO: Modesto* (West Chester, Pennsylvania: Economy.com, Incorporated, August 2003).

²⁰ *Ibid.*

²¹ *Précis: METRO: Merced* (West Chester, Pennsylvania: Economy.com, Incorporated, August 2003).

²² *Ibid.*

²³ *Ibid.*

²⁴ *Précis: METRO: Modesto* (West Chester, Pennsylvania: Economy.com, Incorporated, August 2003).

²⁵ *Précis: METRO: Merced* (West Chester, Pennsylvania: Economy.com, Incorporated, August 2003).

²⁶ *Précis: METRO: Modesto* (West Chester, Pennsylvania: Economy.com, Incorporated, August 2003).

²⁷ *Ibid.*

²⁸ *Précis: METRO: Merced* (West Chester, Pennsylvania: Economy.com, Incorporated, August 2003).

²⁹ California Budget Project, *Locked Out 2004: California's Affordable Housing Crisis*, January 2004 (accessed February 5, 2004); available from <http://www.cbp.org/2004/lockedout2004.pdf>.

increases far outstrip wage growth will place increased pressure on home ownership rates, particularly among low- and moderate-income families. Growing pressure on affordability has already led to an identified need for affordable housing construction. The greatest obstacles to affordable housing construction are limited government subsidies necessary to make the developments viable and neighborhood opposition to proposed sites.³⁰ Lenders, including F&M compete for the limited financing opportunities that arise.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MODESTO-MERCED

LENDING TEST

Lending test performance in Modesto-Merced is good. F&M responds to community credit needs and increased its lending in this assessment area between examinations. The geographic distribution was good for small business and home mortgage refinance loans, with small farm lending distributions were adequate. Lending to small business and small farms was good with a majority of loans to entities with \$1 million or less in gross annual revenue. Loans to borrowers of different incomes showed patterns similar to small business and small farm lending with particular strength noted in providing home mortgage refinance loans to moderate-income families. F&M's community development lending was excellent, helping to meet a need for affordable housing as well as assisting low- and moderate-income individuals.

Lending Activity

Lending activity in the Modesto-Merced assessment area is strong. As indicated in Table 1, the percentage of loans made in this assessment area was significantly greater than the percentage of deposits taken. Tables 2 through 4 display F&M's lending patterns for small business, small farms, and home mortgage refinance loans across income geographies. F&M's market share in terms of small business dollars lent was 1.13 percent when viewed against 1990 census data. Although this is below the 4.09 percent county-wide market share the bank has in deposit dollars, its market share in terms of small farm dollars lent (18.34 percent) was well above deposit dollars taken in. Market share of home refinance dollars lent was significantly below the market share of deposit dollars at 0.03 percent, reflecting F&M's core products of small business and small farm lending.

Lending Distribution by Geography

Overall lending distribution by geography in the Modesto-Merced assessment area is good. Loans for the three products under review are generally spread among the various income geographies in accordance with the percentage of entities or are commensurate with aggregate lending rates.

³⁰ Ibid.

Small Business Loans

The distribution of small business loans is generally good. Stronger performance was demonstrated for the review period evaluated using 1990 census data. As seen in Table 2a, small business lending was above aggregate percentage loan rates in moderate-income geographies. Small business lending in low-income geographies was below the percentage of business entities due to the isolated nature of the two low-income assessment area geographies. One is located in the South Eastern portion of the assessment area. It is surrounded by middle-income tracts that are typically not served by the bank. Overall lending in this rural part of the assessment area is minimal. The second low-income tract is located in the Southern portion of Modesto. Its location tends to separate it from F&M's lending due to geographic features and the prevalence of other banks' branches between it and the nearest F&M branch.

Small business lending distributions changed between census periods. As demonstrated in Table 2b, lending to small businesses in low- and moderate-income geographies was significantly below the business entity percentages, primarily due to geographic features that limit borrower' access to F&M branches. These include their location relative to a major State highway and the presence of a river that separates these tracts from the nearest F&M branch. Furthermore, the percentage of small businesses in moderate-income tracts significantly declined between the 1990 and 2000 census data periods. Larger banks have branches in these areas, thus competition for small business lending has increased due to a shrinking universe of businesses of this type. Also of note, one moderate-income tract in Merced moved to a middle-income one between the 1990 and 2000 census periods. F&M had several loans in this tract.

Small Farm Loans

The distribution of small farm loans is adequate. As seen in Table 3a and 3b, small farm lending was concentrated in middle-income geographies. This is due to the nature of rural areas in this assessment area which tend to consist of middle-income tracts. Low- and moderate-income tracts tend to be located near less rural city centers. In addition, a shift in one tract that was moderate-income according to 1990 census data has occurred. This tract was considered middle-income as of the 2000 census data period.

Home Mortgage Refinance Loans

The geographic distribution of home mortgage refinance loans is good. As seen in Table 4a and 4b, home mortgage refinance loans were spread among the various income geographies. Additionally, F&M's penetration of moderate-income census tracts based on 1990 census data was commensurate with the percentage of owner occupied units and was above the aggregate. Other banks, based on branch location were better positioned to serve homeowners in low-income geographies within this assessment area. In addition, a decline in lending in moderate-income geographies between census periods was due mainly to a shifting of tracts. Lending in the remaining income geographies was moderately greater than the percentage of owner-occupied units.

Lending Distribution by Borrower Income and Business Revenue

Small Business Loans

The distribution of loans to small businesses is good. As demonstrated in Table 5, a majority of loans was made to small businesses with a significant portion of these representing small dollar amounts, which helped meet a stated need for small businesses. Although lending to businesses with \$1 million or less in gross annual revenue was below the percentage of all businesses with revenues at this level, F&M's lending percentage to these entities was more than twice the aggregate and almost double its overall small business lending market share.

Small Farm Loans

The distribution of loans to small farms is good. As demonstrated in Table 6, the bulk of F&M's lending activity was centered on small farms with gross annual revenue of \$1 million or less. Although these loans were generally spread among origination size groupings, the most prevalent were originations for less than \$100,000. F&M's percentage of loans to small farms, although significantly below the percentage of all farms, was commensurate with the aggregate lending percentage.

Home Mortgage Refinance Loans

The distribution of home mortgage refinance loans to borrowers of different incomes is good. Although home mortgage refinance loans to low-income families were significantly below the percentage of families, it was generally commensurate with aggregate lending. In addition, due to housing affordability issues, low-income families are typically less likely to have mortgage loans and thus do not require refinancing. As seen in Table 7, lending to other income groups was above family percentages as well as aggregate lending except for upper income families where F&M's lending percentage was below the aggregate.

Community Development Lending

F&M's community development lending in the Modesto-Merced assessment area is excellent. As seen in Table 1, F&M funded seven community development loans totaling \$6 million. Loans were spread among groups that provided affordable housing and those that assisted low- and moderate-income individuals. F&M's lending resulted in 366 housing units affordable to low- and moderate-income families. In addition, the bank demonstrated a leadership role by developing its own projects in response to a dearth of those available through various agencies. For example, F&M collaborated with City of Turlock officials and a developer to develop and market homes for low- and moderate-income individuals and families using a silent second mortgage program.

INVESTMENT TEST

F&M made an excellent level of qualified community development investments and grants. As shown on Table 8, there were 30 new investments and grants totaling \$29,193, prior period investments that remain on the bank's books of \$3.2 million, and a \$590,000 unfunded

commitment to the Miller Pointe project. This project consists of new construction that will contain 16 rental units affordable to low-income individuals and is specifically designed to assist mentally ill clients in Modesto. F&M has committed to a private placement bond for this project in collaboration with the Housing Authority and Stanislaus Behavioral Health and Recovery Services.

Prior period investments consist of private placement bonds used to finance the Pine Meadows and Woodstone apartments. These bonds required a significant expenditure of effort and expertise on the part of bank staff. F&M's assistance with these bonds resulted in significant cost savings to the Stanislaus County Housing Authority. These cost savings allowed funds to be redirected by the Authority in order to fund additional affordable housing projects. In addition to developing complex and creative investment vehicles, F&M regularly donated to local area support groups.

Of the bank's investments and grants, 22 targeted low- and moderate-income individuals, eight focused on affordable housing and two were directed at small business development. F&M showed leadership through its ongoing support of local area service groups.

Notable Community Development Investments:

Housing Authority of Stanislaus County

Pine Meadows and Woodstone apartments provide multi-family affordable housing in the Modesto area. Pine Meadows consists of 36 duplex units, Woodstone is a 56-unit apartment building. These private placement bonds were the first ones for the Housing Authority, and required numerous hours on the part of the bank to structure. The bonds are innovative and complex prior period investments that remain on the bank's books. The bonds date from December 21, 2000 and December 6, 2001, respectively.

Miller Pointe

Miller Pointe is a collaborative effort involving the Housing Authority and Stanislaus Behavioral Health and Recovery Services. The Miller Pointe project will provide permanent rental housing that is affordable to individuals suffering from mental illness and having income below 50 percent of the area median. This investment (currently an unfunded commitment of \$590,000) is structured as a private placement bond and will assist in meeting a significant need for affordable housing.

SERVICE TEST

F&M's provision of retail banking and community development services is excellent.

Retail Banking Services

F&M's branch distribution makes its services accessible to essentially all portions of the assessment area with branches distributed in or near all census tract income levels. Information about branch locations relative to assessment area population may be found in Table 9. During

the period between examinations, the bank opened a full service branch, Vintage Faire, located near low- and moderate-income areas. The branch offers full service with extended hours on Friday and is also open on Saturdays. The new branch improved the accessibility of banking services in the tract in which it is located as well as the surrounding area. There were no branch closures during this period. Business hours and services are tailored to meet the needs of the assessment area, with extended hours offered on Friday, and Saturday banking in selected offices.

The bank tailored specific products to meet assessment area needs. These include:

- Community Business Checking for small businesses and non-profit organizations;
- EBT services for recipients of public assistance;
- a first time homebuyer savings program (IDEA); and
- service charge discounts for seniors and others subject to certain conditions.

Alternative delivery systems such as bank-by-phone and ATMs enhance this accessibility. ATM distributions by income of geographies are shown in Table 10. Hours and services do not vary in a way that inconveniences certain portions of the assessment area. In addition, multi-lingual services are available to all branches and the call center.

Community Development Services

F&M exhibited leadership in community development services for this assessment area. F&M Bank employees performed a significant number of community development services. Twenty-three employees were responsible for 12 community development services totaling 648 hours, reaching a total of 45 low- or moderate-income consumers. Community development services met various community development needs such as:

- fundraising assistance for a children's center;
- providing financial education for low- and moderate-income individuals; and
- board of director service to an organization providing affordable housing.

Notable Community Development Services:

Stanislaus County Housing Authority

The Housing Authority of the County of Stanislaus provides affordable housing services to low and moderate-income residents of the county. Over 160 hours of community development service were also dedicated to the development and maintenance of this agency's Family Self Sufficiency program, which allows families to participate in an Individual Development and Empowerment Account program. This program has enabled fifteen families to achieve homeownership.

Sierra Vista Children's Center

Sierra Vista Children's Center is a private, non-profit organization providing multiple mental health, social and educational services to children and families within the context of their culture

and community. A majority of the children are from families with income of less than eighty percent of the area median. A bank employee served on the board of the association, devoting fifty eight hours of community development service in 2002. In addition seven bank employees provided eighty eight 88 hours of community development service in 2002 by providing fundraising assistance.

LIMITED-SCOPE ASSESSMENT AREA CONCLUSIONS

For each assessment area where a limited-scope review was performed using the examination procedures.

F&M's performance in the Sacramento-Yolo assessment area received a limited-scope review. F&M's presence in this area is limited to three of its 17 branches. This assessment area captured only 14.8 percent of rated area loans and 17.1 percent of rated area deposits. F&M's overall performance in this area is generally consistent with its performance overall. Facts and data reviewed, including performance and demographic information, can be found in the Appendix C accompanying this report.

| ASSESSMENT AREA | LENDING TEST | INVESTMENT TEST | SERVICE TEST |
|-----------------|--------------|-----------------|--------------|
| Sacramento-Yolo | Consistent | Below | Consistent |

APPENDIX A

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.

APPENDIX B

CORE CRA TABLES

| | | |
|----------|---------------------|--|
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| Page B-2 | Tables 2a & 2b | Geographic Distribution of Small Business Loans |
| Page B-3 | Tables 3a & 3b | Geographic Distribution of Small Farm Loans |
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| Page B-9 | Table 9 Table 10 | Distribution of Branch Delivery System and Branch Openings/ Closings Distribution of Branch and ATM Delivery System |

FARMERS & MERCHANTS BANK OF CENTRAL CALIFORNIA

Rated Area: California

Evaluation Period: October 1, 2001 - September 30, 2003

Table 1 - Lending Volume of Reported Loans

| Assessment Area | % of Rated Area Loans | Small Business Loans | | Small Farm Loans | | Home Mortgage Refinance Loans | | Community Development Loans | | Total Reported Loans | | % of Rated Area Deposits 6/30/03 |
|-----------------------------|-----------------------|----------------------|------------|------------------|------------|-------------------------------|------------|-----------------------------|------------|----------------------|------------|----------------------------------|
| | | # Loans | \$ (000's) | # Loans | \$ (000's) | # Loans | \$ (000's) | # Loans | \$ (000's) | # Loans | \$ (000's) | |
| <i>Full Scope Review</i> | | | | | | | | | | | | |
| LODI-STOCKTON | 43.24 | 275 | 47,112 | 204 | 35,800 | 136 | 16,445 | 15 | 18,574 | 630 | 117,931 | 52.95 |
| MODESTO-MERCED | 41.94 | 248 | 30,226 | 177 | 32,532 | 179 | 17,771 | 7 | 6,010 | 611 | 86,539 | 29.99 |
| <i>Limited Scope Review</i> | | | | | | | | | | | | |
| SACRAMENTO-YOLO | 14.83 | 112 | 14,952 | 44 | 7,206 | 52 | 5,193 | 8 | 3,305 | 216 | 30,656 | 17.06 |

FARMERS & MERCHANTS BANK OF CENTRAL CALIFORNIA

Rated Area: California

Table 2a - Geographic Distribution of Small Business Loans - 1990 Census

Evaluation Period: October 1, 2001 - December 31, 2002

| Assessment Areas | Total Loans from Bank | | Low-Income Geographies | | Moderate-Income Geographies | | Middle-Income Geographies | | Upper-Income Geographies | | Aggregate Lending (%) | | | | | Market Share (%) | | | | |
|----------------------------|-----------------------|--------------------|------------------------|-----------------------|-----------------------------|-----------------------|---------------------------|-----------------------|--------------------------|-----------------------|-----------------------|-------|-------|-------|---------|------------------|------|------|------|--|
| | # Loans | % Rated Area Total | Business Entities (%) | | Business Entities (%) | | Business Entities (%) | | Business Entities (%) | | Low | Mod | Mid | Upp | Overall | Low | Mod | Mid | Upp | |
| | | | Bank Loans (%) | Business Entities (%) | Bank Loans (%) | Business Entities (%) | Bank Loans (%) | Business Entities (%) | Bank Loans (%) | Business Entities (%) | | | | | | | | | | |
| <i>Full-Scope Review</i> | | | | | | | | | | | | | | | | | | | | |
| LODI-STOCKTON | 156 | 50.00 | 0.00 | 0.00 | 16.67 | 14.58 | 46.15 | 60.61 | 37.18 | 24.81 | 0.00 | 15.00 | 58.70 | 26.30 | 3.31 | 0.00 | 4.02 | 2.84 | 3.96 | |
| MODESTO-MERCED | 102 | 32.69 | 0.00 | 1.07 | 18.63 | 21.07 | 67.65 | 57.77 | 13.73 | 20.09 | 0.95 | 17.24 | 58.17 | 23.64 | 1.13 | 0.00 | 1.25 | 1.41 | 0.39 | |
| <i>United-Scope Review</i> | | | | | | | | | | | | | | | | | | | | |
| SACRAMENTO-YOLO | 54 | 17.31 | 3.70 | 4.25 | 18.52 | 20.65 | 53.70 | 36.38 | 24.07 | 38.72 | 3.76 | 19.89 | 35.26 | 41.09 | 0.84 | 0.00 | 0.69 | 0.91 | 0.93 | |

Table 2b - Geographic Distribution of Small Business Loans - 2000 Census

Evaluation Period: January 1, 2003 - September 30, 2003

| Assessment Areas | Total Loans from Bank | | Low-Income Geographies | | Moderate-Income Geographies | | Middle-Income Geographies | | Upper-Income Geographies | | Aggregate Lending (%) | | | | | Market Share (%) | | | | |
|----------------------------|-----------------------|--------------------|------------------------|-----------------------|-----------------------------|-----------------------|---------------------------|-----------------------|--------------------------|-----------------------|-----------------------|-----|-----|-----|---------|------------------|-----|-----|-----|--|
| | # Loans | % Rated Area Total | Business Entities (%) | | Business Entities (%) | | Business Entities (%) | | Business Entities (%) | | Low | Mod | Mid | Upp | Overall | Low | Mod | Mid | Upp | |
| | | | Bank Loans (%) | Business Entities (%) | Bank Loans (%) | Business Entities (%) | Bank Loans (%) | Business Entities (%) | Bank Loans (%) | Business Entities (%) | | | | | | | | | | |
| <i>Full-Scope Review</i> | | | | | | | | | | | | | | | | | | | | |
| LODI-STOCKTON | 119 | 36.84 | 0.00 | 0.00 | 17.65 | 25.32 | 60.50 | 43.60 | 21.85 | 31.08 | NA | NA | NA | NA | NA | NA | NA | NA | NA | |
| MODESTO-MERCED | 146 | 45.20 | 0.68 | 7.95 | 5.48 | 14.70 | 67.81 | 51.77 | 26.03 | 25.58 | NA | NA | NA | NA | NA | NA | NA | NA | NA | |
| <i>United-Scope Review</i> | | | | | | | | | | | | | | | | | | | | |
| SACRAMENTO-YOLO | 58 | 17.96 | 6.90 | 6.94 | 22.41 | 31.18 | 39.66 | 31.06 | 31.03 | 30.83 | NA | NA | NA | NA | NA | NA | NA | NA | NA | |

Note: Business entities based on 2002 Dun & Bradstreet data.
Aggregate Lending and Market Share data based on 2002 reported small business lending activity.

FARMERS & MERCHANTS BANK OF CENTRAL CALIFORNIA

Rated Area: California

Table 3a - Geographic Distribution of Small Farm Loans - 1990 Census

Evaluation Period: October 1, 2001 - December 31, 2002

| Assessment Areas | Total Loans from Bank | | Low-Income Geographies | | Moderate-Income Geographies | | Middle-Income Geographies | | Upper-Income Geographies | | Aggregate Lending (%) | | | | | Market Share (%) | | | | |
|-----------------------------|-----------------------|--------------------|------------------------|------|-----------------------------|------|---------------------------|-------|--------------------------|-------|-----------------------|------|-------|-------|---------|------------------|-------|-------|-------|--|
| | # Loans | % Rated Area Total | Bank Loans (%) | | Farm Entities (%) | | Bank Loans (%) | | Farm Entities (%) | | Low | Mod | Mid | Upp | Overall | Low | Mod | Mid | Upp | |
| | | | | | | | | | | | | | | | | | | | | |
| <i>Full Scope Review</i> | | | | | | | | | | | | | | | | | | | | |
| LODI-STOCKTON | 115 | 46.37 | 0.00 | 0.00 | 2.61 | 4.69 | 56.52 | 73.52 | 40.87 | 21.79 | 0.00 | 4.10 | 70.66 | 25.24 | 36.91 | 0.00 | 46.15 | 29.91 | 55.00 | |
| MODESTO-MERCED | 105 | 42.34 | 0.00 | 0.17 | 5.71 | 6.64 | 80.00 | 66.03 | 14.29 | 27.16 | 0.00 | 7.72 | 70.46 | 21.81 | 18.34 | 0.00 | 12.50 | 21.37 | 10.62 | |
| <i>Limited Scope Review</i> | | | | | | | | | | | | | | | | | | | | |
| SACRAMENTO-YOLO | 28 | 11.29 | 0.00 | 0.00 | 3.57 | 2.16 | 85.71 | 83.24 | 10.71 | 14.59 | 0.00 | 3.03 | 87.88 | 9.09 | 34.85 | 0.00 | 50.00 | 34.48 | 33.33 | |

Table 3b - Geographic Distribution of Small Farm Loans - 2000 Census

Evaluation Period: January 1, 2003 - September 30, 2003

| Assessment Areas | Total Loans from Bank | | Low-Income Geographies | | Moderate-Income Geographies | | Middle-Income Geographies | | Upper-Income Geographies | | Aggregate Lending (%) | | | | | Market Share (%) | | | | |
|-----------------------------|-----------------------|--------------------|------------------------|------|-----------------------------|------|---------------------------|-------|--------------------------|-------|-----------------------|-----|-----|-----|---------|------------------|-----|-----|-----|--|
| | # Loans | % Rated Area Total | Bank Loans (%) | | Farm Entities (%) | | Bank Loans (%) | | Farm Entities (%) | | Low | Mod | Mid | Upp | Overall | Low | Mod | Mid | Upp | |
| | | | | | | | | | | | | | | | | | | | | |
| <i>Full Scope Review</i> | | | | | | | | | | | | | | | | | | | | |
| LODI-STOCKTON | 89 | 50.28 | 0.00 | 0.00 | 5.62 | 4.35 | 58.43 | 57.47 | 35.96 | 38.17 | NA | NA | NA | NA | NA | NA | NA | NA | NA | |
| MODESTO-MERCED | 72 | 40.68 | 0.00 | 0.63 | 2.78 | 7.05 | 94.44 | 74.56 | 2.78 | 17.75 | NA | NA | NA | NA | NA | NA | NA | NA | NA | |
| <i>Limited Scope Review</i> | | | | | | | | | | | | | | | | | | | | |
| SACRAMENTO-YOLO | 16 | 9.04 | 0.00 | 0.00 | 6.25 | 4.26 | 62.50 | 50.00 | 31.25 | 45.74 | NA | NA | NA | NA | NA | NA | NA | NA | NA | |

Note: Farm entities based on 2002 Dun & Bradstreet data.
Aggregate Lending and Market Share data based on 2002 reported small farm lending activity.

FARMERS & MERCHANTS BANK OF CENTRAL CALIFORNIA

Rated Area: California

Table 4a - Geographic Distribution of Home Mortgage Refinance Loans - 1990 Census

Evaluation Period: October 1, 2001 - December 31, 2002

| Assessment Areas | Total Loans from Bank | | Low-Income Geographies | | Moderate-Income Geographies | | Middle-Income Geographies | | Upper-Income Geographies | | Aggregate Lending (%) | | | | | Market Share (%) | | | | |
|-----------------------------|-----------------------|--------------------|------------------------|---------------------|-----------------------------|---------------------|---------------------------|---------------------|--------------------------|---------------------|-----------------------|-------|-------|-------|---------|------------------|------|------|------|--|
| | # Loans | % Rated Area Total | Owner Occ Units (%) | | Owner Occ Units (%) | | Owner Occ Units (%) | | Owner Occ Units (%) | | Low | Mod | Mid | Upp | Overall | Low | Mod | Mid | Upp | |
| | | | Bank Loans (%) | Owner Occ Units (%) | Bank Loans (%) | Owner Occ Units (%) | Bank Loans (%) | Owner Occ Units (%) | Bank Loans (%) | Owner Occ Units (%) | | | | | | | | | | |
| <i>Full Scope Review</i> | | | | | | | | | | | | | | | | | | | | |
| LODI-STOCKTON | 32 | 69.57 | 0.00 | 0.00 | 18.75 | 7.43 | 46.88 | 59.75 | 34.38 | 32.82 | 0.00 | 8.37 | 56.84 | 34.79 | 0.21 | 0.00 | 0.48 | 0.18 | 0.21 | |
| MODESTO-MERCED | 9 | 19.57 | 0.00 | 0.26 | 11.11 | 13.13 | 77.78 | 61.34 | 11.11 | 25.26 | 0.21 | 10.38 | 59.85 | 29.57 | 0.03 | 0.00 | 0.03 | 0.04 | 0.01 | |
| <i>Limited Scope Review</i> | | | | | | | | | | | | | | | | | | | | |
| SACRAMENTO-YOLO | 5 | 10.87 | 0.00 | 1.72 | 0.00 | 17.00 | 60.00 | 47.57 | 40.00 | 33.71 | 0.52 | 8.21 | 34.89 | 56.37 | 0.02 | 0.00 | 0.00 | 0.03 | 0.01 | |

Table 4b - Geographic Distribution of Home Mortgage Refinance Loans - 2000 Census

Evaluation Period: January 1, 2003 - September 30, 2003

| Assessment Areas | Total Loans from Bank | | Low-Income Geographies | | Moderate-Income Geographies | | Middle-Income Geographies | | Upper-Income Geographies | | Aggregate Lending (%) | | | | | Market Share (%) | | | | |
|-----------------------------|-----------------------|--------------------|------------------------|---------------------|-----------------------------|---------------------|---------------------------|---------------------|--------------------------|---------------------|-----------------------|-----|-----|-----|---------|------------------|-----|-----|-----|--|
| | # Loans | % Rated Area Total | Owner Occ Units (%) | | Owner Occ Units (%) | | Owner Occ Units (%) | | Owner Occ Units (%) | | Low | Mod | Mid | Upp | Overall | Low | Mod | Mid | Upp | |
| | | | Bank Loans (%) | Owner Occ Units (%) | Bank Loans (%) | Owner Occ Units (%) | Bank Loans (%) | Owner Occ Units (%) | Bank Loans (%) | Owner Occ Units (%) | | | | | | | | | | |
| <i>Full Scope Review</i> | | | | | | | | | | | | | | | | | | | | |
| LODI-STOCKTON | 104 | 32.40 | 0.00 | 0.00 | 16.35 | 12.95 | 46.15 | 45.35 | 37.50 | 41.70 | NA | NA | NA | NA | NA | NA | NA | NA | NA | |
| MODESTO-MERCED | 170 | 52.96 | 0.00 | 1.02 | 8.24 | 13.85 | 60.00 | 56.55 | 31.76 | 28.58 | NA | NA | NA | NA | NA | NA | NA | NA | NA | |
| <i>Limited Scope Review</i> | | | | | | | | | | | | | | | | | | | | |
| SACRAMENTO-YOLO | 47 | 14.64 | 2.13 | 3.29 | 19.15 | 26.52 | 38.30 | 33.52 | 40.43 | 36.67 | NA | NA | NA | NA | NA | NA | NA | NA | NA | |

Note: Owner Occupied Housing Units based on 1990 and 2000 U.S. Census data.
Aggregate Lending and Market Share data based on 2002 HIMDA data.

FARMERS & MERCHANTS BANK OF CENTRAL CALIFORNIA

Rated Area: California

Table 5 - Borrower Distribution of Small Business Loans

Evaluation Period: October 1, 2001 - September 30, 2003

| Assessment Areas | Total Small Business Loans | | Businesses with Revenue <= \$1 Million | | Originations Regardless of Revenue Size | | | Aggregate Lending (%) | | Market Share (%) | |
|-----------------------------|----------------------------|--------------------|--|--------------------|---|----------------------------|---------------------------------|-----------------------|------------------------------------|------------------|------------------------------------|
| | # Loans | % Rated Area Total | Bank Loans (%) | All Businesses (%) | <= \$100K (%) | > \$100K and <= \$250K (%) | > \$250K and <= \$1 Million (%) | All Loans | Loans to Revenue <= \$ Million (%) | All Loans | Loans to Revenue <= \$ Million (%) |
| <i>Full Scope Review</i> | | | | | | | | | | | |
| LODI-STOCKTON | 275 | 43.31 | 63.64 | 85.14 | 60.00 | 17.45 | 22.55 | 4,806 | 26.86 | 3.31 | 7.67 |
| MODESTO-MERCED | 248 | 39.06 | 63.71 | 84.94 | 75.81 | 8.06 | 16.13 | 9,768 | 26.83 | 1.13 | 2.25 |
| <i>Limited Scope Review</i> | | | | | | | | | | | |
| SACRAMENTO-YOLO | 112 | 17.64 | 65.18 | 87.30 | 71.43 | 10.71 | 17.86 | 6,571 | 25.14 | 0.84 | 2.30 |

Note: Business entities based on 2002 Dun & Bradstreet data.
Aggregate Lending and Market Share data based on 2002 reported small business lending activity.

FARMERS & MERCHANTS BANK OF CENTRAL CALIFORNIA

Rated Area: California

Table 6 - Borrower Distribution of Small Farm Loans

Evaluation Period: October 1, 2001 - September 30, 2003

| Assessment Areas | Total Small Farm Loans | | Farms with Revenue < = \$1 Million | | Originations Regardless of Revenue Size | | | Aggregate Lending (%) | | Market Share (%) | |
|-----------------------------|------------------------|--------------------|------------------------------------|---------------|---|-----------------------------|-----------------------------|-----------------------|-------------------------------------|------------------|-------------------------------------|
| | # Loans | % Rated Area Total | Bank Loans (%) | All Farms (%) | < = \$100K (%) | > \$100K and < = \$250K (%) | > \$250K and < = \$500K (%) | All Loans | Loans to Revenue < = \$ Million (%) | All Loans | Loans to Revenue < = \$ Million (%) |
| <i>Full Scope Review</i> | | | | | | | | | | | |
| LODI-STOCKTON | 204 | 48.00 | 79.90 | 87.52 | 43.63 | 28.92 | 27.45 | 317 | 64.35 | 36.91 | 44.61 |
| MODESTO-MERCED | 177 | 41.65 | 58.76 | 90.97 | 45.20 | 22.03 | 32.77 | 518 | 59.85 | 18.34 | 17.42 |
| <i>Limited Scope Review</i> | | | | | | | | | | | |
| SACRAMENTO-YOLO | 44 | 10.35 | 59.09 | 89.36 | 45.45 | 25.00 | 29.55 | 66 | 53.03 | 34.85 | 31.43 |

Note: Farm entities based on 2002 Dun & Bradstreet data.
Aggregate Lending and Market Share data based on 2002 reported small farm lending activity.

FARMERS & MERCHANTS BANK OF CENTRAL CALIFORNIA

Rated Area: California

Table 7 - Borrower Distribution of Home Mortgage Refinance Loans

Evaluation Period: October 1, 2001 - September 30, 2003

| Assessment Areas | Total Loans from Bank | | Low-Income Borrowers | | Moderate-Income Borrowers | | Middle-Income Borrowers | | Upper-Income Borrowers | | Aggregate Lending (%) | | | | Market Share (%) | | | | |
|-----------------------------|-----------------------|--------------------|----------------------|--------------|---------------------------|--------------|-------------------------|--------------|------------------------|--------------|-----------------------|-------|-------|-------|------------------|------|------|------|------|
| | # Loans | % Rated Area Total | Bank Loans (%) | Families (%) | Bank Loans (%) | Families (%) | Bank Loans (%) | Families (%) | Bank Loans (%) | Families (%) | Low | Mod | Mid | Upp | Overall | Low | Mod | Mid | Upp |
| <i>Full Scope Review</i> | | | | | | | | | | | | | | | | | | | |
| LODI-STOCKTON | 93 | 38.59 | 7.53 | 20.38 | 13.98 | 16.29 | 23.66 | 20.28 | 54.84 | 43.05 | 1.94 | 9.31 | 22.64 | 66.10 | 0.24 | 1.22 | 0.26 | 0.28 | 0.19 |
| MODESTO-MERCED | 118 | 48.96 | 1.69 | 21.22 | 17.80 | 17.54 | 28.81 | 20.92 | 51.69 | 40.33 | 2.76 | 12.33 | 25.28 | 59.63 | 0.04 | 0.00 | 0.03 | 0.02 | 0.05 |
| <i>Limited Scope Review</i> | | | | | | | | | | | | | | | | | | | |
| SACRAMENTO-YOLO | 30 | 12.45 | 6.67 | 22.19 | 20.00 | 19.04 | 40.00 | 21.00 | 33.33 | 37.77 | 3.80 | 16.55 | 30.06 | 49.59 | 0.02 | 0.09 | 0.00 | 0.01 | 0.02 |

Note: Family data based on 1990 and 2000 U.S. Census data.
Aggregate Lending and Market Share data based on 2002 HMDA data.

FARMERS & MERCHANTS BANK OF CENTRAL CALIFORNIA

Rated Area: California

Table 8 - Qualified Investments

Evaluation Period: October 1, 2001 - September 30, 2003

| Assessment Areas | Prior Period Investments* | | Current Period Investments | | Total Investments | | | Unfunded Commitments** | |
|-----------------------------|---------------------------|-----------|----------------------------|-----------|-------------------|-----------|------------|------------------------|-----------|
| | # | \$(000's) | # | \$(000's) | # | \$(000's) | % of Total | # | \$(000's) |
| <i>Full-Scope Review</i> | | | | | | | | | |
| LODI-STOCKTON | 0 | 0 | 72 | 620 | 72 | 620 | 12.30% | 0 | 0 |
| MODESTO-MERCED | 2 | 3,208 | 30 | 29 | 32 | 3,237 | 64.16% | 1 | 590 |
| STATEWIDE/REGIONAL | 1 | 1,170 | 0 | 0 | 1 | 1,170 | 23.19% | 0 | 0 |
| <i>Limited Scope Review</i> | | | | | | | | | |
| SACRAMENTO-YOLO | 0 | 0 | 14 | 18 | 14 | 18 | 0.35% | 0 | 0 |

Note: *Investments made in a previous evaluation period that are outstanding as of the examination date.
 **Legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

FARMERS & MERCHANTS BANK OF CENTRAL CALIFORNIA

Rated Area: California

Evaluation Period: October 1, 2001 - September 30, 2003

Table 9 - Distribution of Branch Delivery System and Branch Openings/Closings

| Assessment Areas | Deposits | | Branches | | | | Branch Openings/Closings | | | | Population | | | | | | | |
|-----------------------------|--------------------------------|--------------------|--------------------------------|---|-------|-------|--------------------------|----------------------|---|-----|------------|---------------------------------------|------|-------|-------|-------|--|--|
| | % of Rated Area Deposits in AA | # of Bank Branches | % of Rated Area Branches in AA | Location of Branches by Income of Geographies (%) | | | # of Branch Openings | # of Branch Closings | Net Change in Location of Branches (+ or -) | | | % of Population Within Each Geography | | | | | | |
| | | | | Low | Mod | Mid | | | Upp | Low | Mod | Upp | Low | Mod | Upp | | | |
| <i>Full Scope Review</i> | | | | | | | | | | | | | | | | | | |
| LODI-STOCKTON | 53.00 | 7 | 41.20 | 0.00 | 14.29 | 57.14 | 28.57 | 1 | 0 | 0 | +1 | 0 | 0.00 | 12.80 | 59.20 | 28.00 | | |
| MODESTO-MERCED | 30.00 | 7 | 41.20 | 0.00 | 14.29 | 57.14 | 28.57 | 1 | 0 | 0 | +1 | 0 | 0.70 | 17.50 | 62.00 | 19.80 | | |
| <i>Limited Scope Review</i> | | | | | | | | | | | | | | | | | | |
| SACRAMENTO-YOLO | 17.00 | 3 | 0.00 | 33.33 | 66.67 | 0.00 | 0.00 | 0 | 0 | 0 | 0 | 0 | 2.70 | 23.00 | 46.10 | 28.10 | | |

Table 10 - Distribution of Branch and ATM Delivery System

Evaluation Period: October 1, 2001 - September 30, 2003

| Assessment Areas | Deposits | | Branches | | | | Branch Openings/Closings | | | | Population | | | | | | | |
|-----------------------------|--------------------------------|--------------------|--------------------------------|---|-------|-------|--------------------------|----------------------|---|------|------------|---------------------------------------|-------|------|-------|-------|-------|--|
| | % of Rated Area Deposits in AA | # of Bank Branches | % of Rated Area Branches in AA | Location of Branches by Income of Geographies (%) | | | # of ATMs | % of Total Bank ATMs | Location of ATMs by Income of Geographies (%) | | | % of Population Within Each Geography | | | | | | |
| | | | | Low | Mod | Mid | | | Upp | Low | Mod | Upp | Low | Mod | Upp | | | |
| <i>Full Scope Review</i> | | | | | | | | | | | | | | | | | | |
| LODI-STOCKTON | 53.00 | 7 | 41.20 | 0.00 | 14.29 | 57.14 | 28.57 | 10 | 42.00 | 0.00 | 20.00 | 60.00 | 20.00 | 0.00 | 12.80 | 59.20 | 28.00 | |
| MODESTO-MERCED | 30.00 | 7 | 41.20 | 0.00 | 14.29 | 57.14 | 28.57 | 8 | 33.00 | 0.00 | 12.50 | 62.50 | 25.00 | 0.70 | 17.50 | 62.00 | 19.80 | |
| <i>Limited Scope Review</i> | | | | | | | | | | | | | | | | | | |
| SACRAMENTO-YOLO | 17.00 | 3 | 0.00 | 33.33 | 66.67 | 0.00 | 0.00 | 5 | 21.00 | 0.00 | 20.00 | 80.00 | 0.00 | 2.70 | 23.00 | 46.10 | 28.10 | |

APPENDIX C

LIMITED-SCOPE ASSESSMENT AREA

MARKET PROFILE

All demographic and economic information in this appendix came from one of the following sources:

- 2000 U.S. Census
- 2003 Dun & Bradstreet data
- County Snapshot - California Employment Department, Labor Market Information Division
- County Profile - California Department of Finance
- California Budget Project, *Locked Out 2004: California's Affordable Housing Crisis*, January 2004 (accessed February 5, 2004); available from <http://www.cbp.org/2004/lockedout2004.pdf>

| MARKET PROFILE | | | | | | | | |
|--|---------------------------|------------------------|---|--------------|--|--------------|---------------------------|--------------|
| SACRAMENTO-YOLO ASSESSMENT AREA | | | | | | | | |
| Income Categories | Tract Distribution | | Families by Tract Income | | Families < Poverty Level as % of Families by Tract | | Families by Family Income | |
| | # | % | # | % | # | % | # | % |
| Low-income | 3 | 3.8 | 4,336 | 4.7 | 1,271 | 29.3 | 20,650 | 22.2 |
| Moderate-income | 24 | 30.4 | 29,963 | 32.2 | 5,972 | 19.9 | 17,720 | 19.0 |
| Middle-income | 28 | 35.4 | 29,395 | 31.6 | 2,127 | 7.2 | 19,548 | 21.0 |
| Upper-income | 24 | 30.4 | 29,371 | 31.6 | 694 | 2.4 | 35,147 | 37.8 |
| Total AA | 79 | 100.0 | 93,065 | 100.0 | 10,064 | 10.8 | 93,065 | 100.0 |
| Income Categories | Housing Units by Tract | Housing Types by Tract | | | | | | |
| | | Owner-occupied | | | Rental | | Vacant | |
| | | # | % | % | # | % | # | % |
| Low-income | 6,614 | 2,695 | 3.3 | 40.7 | 3,543 | 53.6 | 376 | 5.7 |
| Moderate-income | 41,383 | 21,735 | 26.5 | 52.5 | 17,532 | 42.4 | 2,116 | 5.1 |
| Middle-income | 39,384 | 27,480 | 33.5 | 69.8 | 10,655 | 27.1 | 1,249 | 3.2 |
| Upper-income | 39,153 | 30,062 | 36.7 | 76.8 | 8,011 | 20.5 | 1,080 | 2.8 |
| Total AA | 126,534 | 81,972 | 100.0 | 64.8 | 39,741 | 31.4 | 4,821 | 3.8 |
| Income Categories | Total Businesses by Tract | | Businesses by Tract & Revenue Size | | | | | |
| | | | Less Than or Equal to \$1 Million | | Greater than \$1 Million | | Revenue Not Reported | |
| | | | # | % | # | % | # | % |
| Low-income | 401 | 6.9 | 336 | 6.7 | 52 | 10.0 | 13 | 6.1 |
| Moderate-income | 1,802 | 31.2 | 1,514 | 30.0 | 237 | 45.6 | 51 | 23.8 |
| Middle-income | 1,795 | 31.1 | 1,565 | 31.0 | 151 | 29.0 | 79 | 36.9 |
| Upper-income | 1,782 | 30.8 | 1,631 | 32.3 | 80 | 15.4 | 71 | 33.2 |
| Total AA | 5,780 | 100.0 | 5,046 | 100.0 | 520 | 100.0 | 214 | 100.0 |
| Percentage of Total Businesses: | | | 87.3 | | 9.0 | | 3.7 | |
| Income Categories | Total Farms by Tract | | Farms by Tract & Revenue Size | | | | | |
| | | | Less Than or Equal to \$1 Million | | Greater than \$1 Million | | Revenue Not Reported | |
| | | | # | % | # | % | # | % |
| Low-income | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Moderate-income | 8 | 4.3 | 8 | 4.8 | 0 | 0.0 | 0 | 0.0 |
| Middle-income | 94 | 50.0 | 77 | 45.8 | 17 | 94.4 | 0 | 0.0 |
| Upper-income | 86 | 45.7 | 83 | 49.4 | 1 | 5.6 | 2 | 100.0 |
| Total AA | 188 | 100.0 | 168 | 100.0 | 18 | 100.0 | 2 | 100.0 |
| Percentage of Total Farms: | | | 89.4 | | 9.6 | | 1.1 | |
| Median Family Income | 50,717 | | Median Housing Value (2 nd Quarter 2003) | | | | 243,630 | |
| HUD Adjusted Median Family Income for 2003 | 59,800 | | Unemployment Rate (2002 - Sacramento MSA) | | | | 5.2% | |

The Sacramento-Yolo assessment area consists of 78 of Sacramento County's 279 census tracts, and one of Yolo County's 37 geographies. The main cities in this assessment area are Sacramento, Elk Grove, and Florin.

Government represents the largest employment sector, followed by trade and professional and business services. With one percent of California's total agricultural production, Sacramento County ranks 26th in the state for farming.

F&M Bank operates three branches in this assessment area. Data regarding deposits, loans, investments and branches may be found in the core tables.