



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

PUBLIC DISCLOSURE

June 7, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**CUYAMACA BANK, NATIONAL ASSOCIATION
Charter Number 23610**

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

**Comptroller of the Currency
Southern California South Field Office
1925 Palomar Oaks Way, Suite 202
Carlsbad, California 92008**

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

GENERAL INFORMATION

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

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Cuyamaca Bank, National Association (N.A.)**, prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, **as of June 7, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution's *Record of Meeting Community Needs* is rated "**Satisfactory**." The rating is based on the following conclusions:

- C The loan to deposit ratio is comparable with banks of similar total asset size.
- C The majority of loan originations are within the bank's assessment area.
- C The bank lends to businesses of different sizes and to borrowers of different income levels.
- C Lending patterns reasonably reflect the local demographics.

DESCRIPTION OF INSTITUTION:

Cuyamaca Bank, N.A., is a wholly-owned, full-service community bank headquartered in Santee, California. The bank has six branch offices. These include the main office in Santee and a branch office in La Mesa, which were the only two branches the bank operated at the time of the last CRA examination. In July 1998, the bank acquired three additional branch offices from a large retail bank. They are located in Pine Valley, Campo, and Jamul. In April 1999, the bank also opened a new branch office in Lakeside. This enabled the bank to provide community access to credit at a total of six locations. The three acquired branches are full-service, but they are open only part-time because they are located in rural areas, which are not densely populated. The newly opened Lakeside office is open on a full-time basis. The bank has an automatic teller machine at each of the six branches and one in a local shopping center.

There are no financial or legal impediments that hinder the bank's ability to meet the credit needs of its communities. As of March 31, 1999, the bank reported total assets of \$53 million, 47% of which consisted of loans. Commercial real estate loans comprise the largest dollar volume of the current outstanding loan portfolio because the individual loans are typically larger. But the bank's primary focus is business, consumer, and residential mortgage lending. The chart that follows reflects the major categories of the loan portfolio as of the most recent quarter-end.

**OUTSTANDING LOANS BY MAJOR PRODUCT TYPE
AS OF MARCH 31, 1999**

Loan Type	\$ Volume (000)	% Total Loans by \$
Commercial Real Estate	10,937	43%
Commercial/Business	4,730	18%
Residential Mortgage	4,300	17%
Installment/Consumer	2,515	10%
Small Business Administration	1,711	7%
Residential Real Estate Construction	1,218	5%
Total	25,411	100%

The last CRA performance evaluation by the Federal Reserve Bank in January 1997 rated the bank “Satisfactory.”

DESCRIPTION OF CUYAMACA BANK’S ASSESSMENT AREA:

Cuyamaca Bank’s assessment area complies with regulatory requirements. It consists of 78 contiguous census tracts located in eastern San Diego County. It is situated within the San Diego Metropolitan Statistical Area (7320). The defined area does not contain any low-income census tracts, but the bank does not arbitrarily exclude low- or moderate-income geographies. A description of the area demographics follows.

**COMPOSITION BY INCOME LEVEL OF CENSUS TRACTS
DEMOGRAPHIC DATA**

Census Tract Income Level	Number of Tracts by Type	Percent of Tracts by Type	Percent of Families in Tracts	Percent of Businesses in Tracts
Low	-0-	-0-	-0-	-0-
Moderate	12	15%	16%	25%
Middle	52	67%	66%	63%
Upper	14	18%	18%	12%
Total	78	100%	100%	100%

The cities that comprise the assessment area are primarily residential communities supporting the city of San Diego. The designated area includes the incorporated and unincorporated areas of Santee, La Mesa, El Cajon, Lakeside, Lemon Grove, Spring Valley, Rancho San Diego, Alpine, Jamul, Ramona, Pine Valley and Campo. Area population is approximately 435,228. The updated median family income is \$50,800 based on the most recent Department of Housing and Urban Development data. Median housing value is \$169,880 according to 1990 U.S. Census data, and median housing age is 27 years. Small businesses with annual revenue less than \$500,000 represent the majority of businesses in the area.

The economy of the entire San Diego region is strong and growing. According to information published by the San Diego Association of Governments, the region has a high gross regional product growth rate of nearly five percent annually. Increased defense spending, manufacturing, tourism and retail sales have contributed to the robust economy. Population in the region increased by more than 100,000, and jobs grew by approximately 48,000 over the last two years. Growth in the bank’s assessment area mirrors that of the San Diego economy as a whole. For example, the population in Alpine and Jamul has grown by more than 25% in each city between 1990 and 1999. The area economy is centered in retail trade, services and construction. Major employers in the area include Costco, Home Depot, Wal Mart, and local schools and city government.

Cuyamaca Bank competes exclusively with several branches of large financial institutions for market share. It is the only small, commercial bank serving the assessment area. We contacted two economic development agencies and determined that there is an ongoing need for business expansion loans and working capital loans for new businesses in the area. One agency reported that the bank was a founding member of that agency and continues to be actively involved in assessing and meeting small business credit needs in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The bank's commitment to the Community Reinvestment Act is reflected in the performance criteria explained below.

LOAN TO DEPOSIT RATIO

The bank's loan to deposit ratio meets the standards for satisfactory performance. The average loan to deposit ratio for the last eight quarters is 62%. This ratio is comparable with the performance of the two other financial institutions with assets of less than \$100 million serving a similar geographic location. Their average ratio for the same period is also 62%. These ratios, although slightly less than the national average, are still reasonable in comparison. The average ratio nationally for financial institutions of similar asset size is 68% over the same time period.

Cuyamaca Bank's loan to deposit ratio increased from 61% in June 1997 to a high of 67% in June 1998, and then declined to 51% in March 1999. The trend roughly approximates that of the two similarly situated peer banks. Their ratio also increased from 60% in June 1997 to a high of 65% in December 1997, and then declined to a low of 59% in December 1998. Although the peer ratio recently improved to 69% in March 1999, Cuyamaca Bank's ratio has declined to 51%. This correlates with, and is reasonably explained by, the bank's acquisition in July 1998 of three new branch offices from a large retail bank. When acquired, these branches had no loans, only deposits. Management's plans to continue focusing on loan growth should improve the bank's average ratio going forward.

LENDING IN ASSESSMENT AREAS

The bank's lending in the assessment area meets the standards for satisfactory performance. The bank originated a majority of the dollar volume and the number of loans within its assessment area. We prepared this analysis based on the bank's data for 1998 and the first quarter of 1999, which we tested for accuracy. We combined this data with a sample of loan originations during 1997 to cover the time frame since the last CRA examination. The random sample consisted of 30 loans, representing approximately 36% of the total number of originations and 5% of the dollar volume for 1997. The chart that follows reflects lending inside versus outside the bank's designated assessment area.

LENDING INSIDE AND OUTSIDE THE ASSESSMENT AREA
January 1997 to April 1999

	# Loans	% Loans by #	\$ Loans	% Loans by \$
In Assessment Area	157	77%	11,214,776	70%
Out of Area	48	23%	4,694,681	30%
Total	205	100%	15,909,457	100%

LENDING TO BUSINESSES OF DIFFERENT SIZES AND TO BORROWERS OF DIFFERENT INCOME LEVELS

Lending to businesses of different sizes and to borrowers of different income levels meets the standard for satisfactory performance. Business, consumer and residential loans are reasonably distributed among income levels within the assessment area. For this analysis, we randomly sampled 30 business loans and 30 consumer loans originated since the last CRA examination. The business loan sample represents approximately 36% of the number loans and 20% of the dollar volume originated. The consumer loan sample represents approximately 30% of the number of loans and 23% of the dollar volume originated. This analysis also includes all loans reported under the Home Mortgage Disclosure Act (HMDA) that originated in the assessment area during the same time period.

The majority of businesses in the assessment area are small businesses with annual revenues less than \$500,000. Favorably, 60% of both the number and dollar amount of business loans in the sample were made to borrowers in that revenue category. Consumer lending in the sample correlates very favorably with area demographics for low- and moderate-income borrowers. Residential lending reasonably reflects area demographics. Although mortgage lending to low-income borrowers could be strengthened, lending to moderate-income borrowers significantly exceeds area demographic percentages. We also verified that the bank competes with large financial institutions in the assessment area. These institutions offer competitive, government-insured mortgage loans that low-income borrowers may readily access.

The charts that follow reflect the distribution of business, consumer and residential loans among various income levels.

BUSINESS LOAN DISTRIBUTION BY ANNUAL REVENUE
Loans Originated from January 1997 to April 1999

Revenue Size	Number of Loans	Percent	Dollar Amount (\$000)	Percent
\$0 - \$50,000	3	10%	63	5%
\$50,001 - \$100,000	7	23%	187	15%
\$100,001 - \$250,000	6	20%	457	35%
\$250,001 - \$500,000	2	7%	69	5%
\$500,001 - \$1,000,000	6	20%	219	17%
Greater than \$1,000,000	6	20%	305	23%
Total	30	100%	1,300	100%

CONSUMER LOAN DISTRIBUTION BY APPLICANT INCOME
Loans Originated from January 1997 to April 1999

Income Level of Applicant	Percent of Families in Income Category	Number of Loans Originated	Percent of Loans Originated
Low	18%	8	27%
Moderate	19%	7	23%
Middle	25%	8	27%
Upper	38%	7	23%
Total	100%	30	100%

HMDA LOAN DISTRIBUTION BY APPLICANT INCOME
Loans Originated from January 1997 to April 1999

Income Level of Applicant	Percent of Families in Income Category	Number of Loans Originated	Percent of Loans Originated
Low	18%	3	8%
Moderate	19%	14	38%
Middle	25%	7	19%
Upper	38%	13	35%
Total	100%	37	100%

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of loans meets the standard for satisfactory performance. Business, consumer and residential lending activity is comparable with area demographics. For this analysis, we randomly sampled 30 business loans and 30 consumer loans originated since the last CRA examination. The business loan sample represents approximately 36% of the number of loans and 20% of the dollar volume originated. The consumer loan sample represents approximately 30% of the number of loans and 23% of the dollar volume originated. This analysis also includes all loans reported under the Home Mortgage Disclosure Act (HMDA) that originated in the assessment area during the same time period.

Based on our sample, the percentage of business loans originated (by number of loans and dollar amount) in moderate-income geographies exceeds the percentage of businesses in that geography. In addition, consumer and residential loans reflect reasonable penetration in moderate-income geographies. (There are no low-income census tracts in the assessment area.)

The charts that follow reflect the geographic distribution of business, consumer and residential loans compared with area demographics.

BUSINESS LOAN GEOGRAPHIC DISTRIBUTION Loans Originated from January 1997 to April 1999 Distribution By Census Tract Income Level

Census Tract Income Level	Percent of Area Businesses in Tract	Number of Loans Originated	Percent of Number Originated	Dollars Originated (\$000)	Percent of Dollars Originated
Low	N/A	N/A	N/A	N/A	N/A
Moderate	25%	10	33%	508	39%
Middle	63%	17	57%	721	55%
Upper	12%	3	10%	71	6%
Total	100%	30	100%	1,300	100%

[Note: N/A = Not Applicable - there are no low-income census tracts in the assessment area.]

CONSUMER LOAN GEOGRAPHIC DISTRIBUTION
Loans Originated from January 1997 to April 1999
Distribution By Census Tract Income Level

Census Tract Income Level	Percent of Families in Tract	Number of Loans Originated	Percent of Loans Originated
Low	N/A	N/A	N/A
Moderate	16%	4	13%
Middle	66%	23	77%
Upper	18%	3	10%
Total	100%	30	100%

[Note: N/A = Not Applicable - there are no low-income census tracts in the assessment area.]

HMDA LOAN GEOGRAPHIC DISTRIBUTION
Loans Originated from January 1997 to April 1999
Distribution By Census Tract Income Level

Census Tract Income Level	Percent of Owner Occupied Housing in Tract Category	Number of Loans Originated	Percent of Loans Originated
Low	N/A	N/A	N/A
Moderate	9%	5	14%
Middle	69%	26	70%
Upper	22%	6	16%
Total	100%	37	100%

Responses to Complaints

The bank has received no CRA-related complaints since the last CRA performance evaluation.

Fair Lending Analysis

The bank is in compliance with Fair Lending laws and regulations. Our fair lending review, conducted along with this examination, found no unusual patterns or discriminatory lending practices.