

PUBLIC DISCLOSURE

December 6, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Mission Community Bank
RSSD #2640530**

**581 Higuera Street
San Luis Obispo, California 93401**

**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.

TABLE OF CONTENTS

INSTITUTION.....	1
PERFORMANCE CONTEXT	
Description of Institution.....	2
Description of Assessment Area.....	3
Business and Economic Conditions	3
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA	
Scope of Examination	5
Loan-to-Deposit Ratio	5
Lending in Assessment Area	6
Lending by Business Revenue.....	6
Geographic Distribution of Loans	6
Community Development Investments	7
Community Development Services.....	7
Response to Complaints.....	8
Compliance with Fair Lending Laws and Regulations	8
GLOSSARY OF TERMS.....	9

INSTITUTION

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

The major factors supporting the institution's rating include:

- A reasonable loan-to-deposit ratio;
- A substantial majority of loans within the assessment area;
- Excellent penetration among small businesses of different sizes;
- A reasonable geographic distribution of loans; and
- Community development investments and services that enhance credit availability in the assessment area.

PERFORMANCE CONTEXT

Description of Institution

Mission Community Bank (MCB) is headquartered in San Luis Obispo, California and had \$129 million in total assets as of June 30, 2004. Formerly a national bank, the company became a state member on December 29, 2003. This Community Reinvestment Act (CRA) examination represents the first evaluation by the Federal Reserve Bank of San Francisco.

MCB, a subsidiary of Mission Community Bancorp, operates four branches in the California Central Coast region. Small business lending forms the core of the bank's portfolio. A subsidiary of the bank, Mission Community Development Corporation (MCDC), is a certified community development financial institution (CDFI) that provides financial services to low- and moderate-income persons and communities.

MCB works in alliance with Mission Community Services Corporation (MCSC), a (non-affiliated) non-profit organization established in 1998 to serve segments of the community that include small businesses, minorities, and low-income entrepreneurs. MCSC works independently or with other agencies to enhance opportunities for entrepreneurs and small business owners to become successful with special assistance provided to low-income, minority and non-profit businesses.

MCB offers an array of banking products centering on small business lending. As can be seen in the following table, commercial loans represented the majority of the loan portfolio as of September 30, 2004.

LOAN TYPE	DOLLAR AMOUNT ('000s)	PERCENT OF VALUE
Commercial/Industrial & Non Farm Non Residential Real Estate	\$62,901	60.6%
Construction and Land Development	\$27,195	26.2%
Secured by 1-4 Family Residential Real Estate	\$7,807	7.5%
Secured by Multifamily Residential Property	\$1,932	1.8%
Consumer and Credit Card Loans	\$1,540	1.5%
Leases	\$1,644	1.5%
Agricultural Loans	\$618	0.6%
Total (Gross)	103,637	100.0%

There are no legal or financial impediments that would prevent the bank from meeting the credit needs of its assessment area consistent with its size, financial resources, and local economic conditions. The bank received a satisfactory performance rating at its previous CRA examination conducted as of March 15, 1999, by the Office of the Comptroller of the Currency.

Description of Assessment Area

MCB's assessment area includes San Luis Obispo County in its entirety. San Luis Obispo County is bordered by Monterey County to the north, Kern County to the east, Santa Barbara County to the south and the Pacific Ocean lies along its western border. According to the 2000 Census, San Luis Obispo County now contains 44 census tracts, an increase of 10 census tracts or 29.4 percent since the previous Census. There are no low-income census tracts in the assessment area. From the 1990 Census to the 2000 Census, moderate-income census tracts increased from four census tracts or 11.8 percent of all census tracts to seven census tracts or 15.9 percent. As demonstrated in the table below, moderate-, middle- and upper-income census tracts make up the assessment area.

2000 Census Tract Income Level ¹	Census Tract Distribution		Population Distribution	
	Number	Percent	Number	Percent
Moderate	8	18.2%	36,885	15.0%
Middle	30	68.2%	175,765	71.2%
Upper	5	11.4%	34,008	13.8%
Unknown	1	2.3%	23	0.0%
Total	44	100.0%	246,681	100.0%

The assessment area is a competitive marketplace for financial services. As of June 30, 2004, there were 14 FDIC-insured institutions operating 70 offices with deposits totaling \$4.0 billion. Deposits were concentrated at three large national financial institutions, collectively holding 58.0 percent of deposit market share as of June 30, 2004. MCB ranked tenth in deposit balances, with a 2.8 percent market share.²

Business and Economic Conditions

San Luis Obispo County relies heavily on tourism for its economic base. As a result, the greatest number of establishments and persons employed are within the services and trade industries.

The County has shown signs of economic weakness. The unemployment rate in San Luis Obispo County rose to 3.4 percent in 2002, an increase from the 2.8 percent rate of 2001,³ but has remained lower than the United States index since 1997.⁴ Levels of employment in the sizable service industry remain flat, and cutbacks in government jobs have also negatively impacted employment.⁵ In addition, labor force growth has stalled, partly a reflection of limited new job opportunities.⁶

¹ Reflects the 2004 changes to the statistical area definitions per the Office of Management and Budget (OMB) Bulletin No. 04-03.

² *FDIC Summary of Deposits*, June 30, 2004 (accessed December 3, 2004); available from <http://www2.fdic.gov/sod>.

³ *Précis METRO: San Luis Obispo* (West Chester, Pennsylvania: Economy.com, August 2003).

⁴ *Ibid.*

⁵ *Ibid.*

⁶ *Précis METRO: San Luis Obispo* (West Chester, Pennsylvania: Economy.com, August 2004).

Interviews with community representatives, combined with demographic and economic information, suggest small business financing remains an area of credit need. Businesses with gross annual revenue of \$1 million or less accounted for over 87 percent of assessment area businesses. Community representatives state that such businesses require loans in small dollar amounts to ensure their continued economic viability. Several banks compete to serve this market niche. The table below details the 2000 Dun & Bradstreet information regarding businesses within the assessment area.

Income Categories	Total Businesses by Census Tract		Businesses by Census Tract Category and Revenue Size 2000 Census ⁷					
			Less Than or Equal to \$1 Million		Greater Than \$1 Million		Revenue Not Reported	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Moderate	1,861	21.2%	1,626	21.2%	181	21.4%	54	19.9%
Middle	5,905	67.2%	5,169	67.4%	558	66.0%	178	65.7%
Upper	1,019	11.6%	874	11.4%	106	12.5%	39	14.4%
Unknown	1	0.0%	1	0.0%	0	0.0%	0	0.0%
Total	8,786	100.0%	7,670	100.0%	845	100.0%	271	100.0%
Percent of Total Businesses			87.3%		9.6%		3.1%	

Low interest rates and excess demand have led to substantial increases in home prices in San Luis Obispo County. The existing home price rose 12.3 percent over the previous year to reach \$285,000 in 2002.⁸ Community contact representatives have suggested that median home prices in San Luis Obispo are now approaching \$500,000. Housing inflation of this magnitude makes home ownership very difficult for low- and moderate-income consumers. It is estimated that hundreds of families are locked out of the current housing market.⁹

This rise in housing costs has led to a critical need for affordable housing construction. However, limited government subsidies necessary to make the developments viable and neighborhood opposition to proposed sites represent significant obstacles to this type of construction.¹⁰ Competition for the limited financing opportunities that do arise is vigorous.

⁷ Business entities based on 2003 Dun & Bradstreet data, using 2000 census and 2004 MSA changes.

⁸ *Précis METRO: San Luis Obispo* (West Chester, Pennsylvania: Economy.com, August 2003).

⁹ *Précis METRO: San Luis Obispo* (West Chester, Pennsylvania: Economy.com, August 2004).

¹⁰ *Locked Out 2004 - California's Affordable Housing Crisis*, California Budget Project, January 2004 (accessed December 3, 2004); available from www.cbp.org/2004/lockedout2004.pdf.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of Examination

MCB's CRA performance was evaluated using the small bank examination procedures. This evaluation was based upon the following performance criteria:

- Loan volume in comparison to deposits (Loan-to-Deposit Ratio);
- Lending inside and outside the assessment area (Lending in Assessment Area);
- Distribution of lending to businesses with different revenue sizes (Lending by Business Revenue);
- Dispersion of lending throughout the assessment area (Geographic Distribution of Loans); and
- Community Development Investments and Services.

Responsiveness to consumer complaints related to CRA performance was not evaluated as no CRA-related complaints were received during the review period.

The CRA performance review was based upon small business loans originated during the sample period of July 1, 2002 through June 30, 2004.

Split reviews of the geographic distribution of lending were performed as part of this examination given that the 2000 Census data is now available and that the Office of Management and Budget (OMB) adopted new statistical area definitions in 2004.¹¹ Lending by income geography for the period July 1, 2002 through December 31, 2002, was evaluated using 1990 Census. Loans originated during calendar year 2003 were analyzed using data from the 2000 Census. In view of changes made in 2004 to the statistical area definitions, an analysis of small business loans originated between January 1, 2004 and June 30, 2004, was conducted using these new definitions. Other tests and performance criteria, not dependent on particular census tracts, were reviewed using combined data for the entire evaluation period.

A total of 175 small business loans originated during the review period were used to determine the percentage of lending that occurred within the assessment area. A total of 161 loans that were extended within the assessment area were used in the geographic distribution of loans analysis. A statistical sample of 39 loans extended inside the assessment area was used to evaluate lending by business revenue.

Loan-to-Deposit Ratio

The loan-to-deposit ratio at this examination meets standards for a satisfactory performance. An average loan-to-deposit ratio using quarterly data from September 30, 2002 through June 30,

¹¹ Office of Management and Budget (OMB) Bulletin Number 04-03.

2004, (eight quarters) is 77.1 percent. This is consistent with the state's average loan-to-deposit ratio of 79.4 percent and the national peer loan-to-deposit ratio of 80.1 percent.

Lending in Assessment Area

The concentration of loans extended inside the assessment area meets standards for outstanding performance as a substantial majority was originated in the assessment area. At this examination, 175 small business loans were made during the review period totaling \$35.4 million. Of these, 161 or 92.0 percent were originated within the assessment area. From a dollar amount perspective, \$31.6 million or 89.4 percent were originated within the assessment area.

Lending by Business Revenue

Small business loan penetration among businesses of different sizes is excellent and meets standards for outstanding performance. Bank loans to businesses with revenues below \$1 million represent 76.9 percent of all lending. This compares reasonably with the community demographics as 87.3 percent of all businesses within the assessment area have revenues of \$1 million or less. Additionally, this performance is significantly better than the aggregated performance of all large bank CRA reporters in the assessment area. All reporters extended only 37.7 percent of small business loans to businesses with gross annual revenues of \$1 million or less. Of the total originations to small businesses, 51.3 percent were in dollar amounts of less than \$100,000, meeting a stated credit need.

Geographic Distribution of Loans

The geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area and meets standards for satisfactory performance. This is based on lending across all available census tracts for each year of lending data analyzed. Overall, lending in moderate-income tracts, although below the percentage of business entities and aggregate lending, is reasonable. Lending in middle- and upper-income tracts is consistently above the percentage of business entities as well as aggregate lending percentages. There are no low-income census tracts within the bank's assessment area and no conspicuous gaps in lending patterns were identified.

Census Tract Income Category	1990 Census July 1, 2002 to December 31, 2002		
	Bank Loans	Business Concentration	Aggregate Lending
Moderate	6.45%	11.79%	13.34%
Middle	80.65%	77.43%	74.04%
Upper	12.90%	10.78%	12.62%

Census Tract Income Category	2000 Census January 1, 2003 to December 30, 2003		
	Bank Loans	Business Concentration	Aggregate Lending ¹²
Moderate	11.49%	19.92%	17.21%
Middle	74.71%	68.48%	68.35%
Upper	13.79%	11.60%	14.44%

Census Tract Income Category	2000 Census & OMB Changes January 1, 2004 to June 30, 2004		
	Bank Loans	Business Concentration	Aggregate Lending ¹³
Moderate	11.63%	19.92%	NA
Middle	76.74%	68.48%	NA
Upper	11.63%	11.60%	NA

Community Development Investments

As a community development bank, MCB has several community development investments and commitments outstanding. These serve to enhance credit availability to small businesses within the assessment area, as well as promote affordable housing. Total investments of \$270,850 and a commitment of \$1 million are currently on the bank's books.

The \$1 million dollar commitment is used to capitalize the San Luis Obispo Housing Trust which was established in 2003. The trust is chartered to help provide affordable housing for low-to moderate income individuals. Other investments helped provide micro lending to small businesses and provided money for an earthquake recovery fund that benefited small businesses in the community.

In addition, MCB's expertise in community development investments allows it to attract funds from other organizations which increases the overall investment activity within the community.

Community Development Services

Bank management provides significant levels of community development services throughout its assessment area. Services are primarily performed in alliance with MCSC. In 2003, 906 hours of community development services were performed. Community development service hours for the period of January 1, 2004 through September 30, 2004, totaled 3,074. This is a high level of services relative to the bank's size and capacity. Some of these services include providing technical assistance to small businesses and expertise to organizations that provide health and social services to low- to moderate-income individuals.

¹² 2004 Aggregate Lending data not currently available.

¹³ Ibid.

Response to Complaints

MCB has not received any complaints relating to its CRA performance since the previous examination. Accordingly, this component was not reviewed to determine the overall CRA performance rating.

Compliance with Fair Lending Laws and Regulations

The bank is in compliance with the substantive provisions of 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.

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.