SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2002-05-14** | Period of Report: **2002-03-31**
SEC Accession No. 0001137547-02-000065

(HTML Version on secdatabase.com)

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UNITED SECURITY BANCSHARES

CIK:**1137547**| IRS No.: **912112732** | State of Incorp.:**CA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-32897** | Film No.: **02644454**
SIC: **6021** National commercial banks

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002.

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _______ TO _______ .

UNITED SECURITY BANCSHARES

(Exact name of registrant as specified in its charter)

CALIFORNIA	91-2112732
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1525 East Shaw Ave., Fresno, California	93710
(Address of principal executive offices)	(Zip Code)

Registrants telephone number, including area code (559) 248-4943

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing for the past 90 days. Yes _X_ No __

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, no par value
(Title of Class)

Shares outstanding as of April 30, 2002: 5,382,937

UNITED SECURITY BANCSHARES AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10Q FOR THE PERIOD ENDED
MARCH 31, 2002

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United Security Bancshares and Subsidiaries
Consolidated Statements of Condition - Balance Sheets
March 31, 2002 (unaudited) and December 31, 2001

(In thousands except shares)	March 31, 2002	December 31, 2001
Assets		
Cash and due from banks	$19,309	$15,945
Federal funds sold and securities purchased under agreements to resell	10,725	13,310
Cash and cash equivalents	30,034	29,255
Securities available for sale (Note 2)	74,738	63,365
Securities held to maturity (Note 2)	0	0
Total investment securities	74,738	63,365
Loans and leases (Note 3)	340,157	336,287
Unearned fees	(575)	(667)
Allowance for credit losses	(5,024)	(4,457)
Net loans	334,558	331,163
Accrued interest receivable	4,057	3,751
Premises and equipment - net	2,916	3,057
Other real estate owned	10,165	5,390
Intangible assets	2,570	2,660
Cash surrender value of life insurance	2,438	2,411
Investment in limited partnership	2,737	2,772
Deferred income taxes	1,820	1,730
Other assets	6,443	5,374
Total assets	$472,476	$450,928
Liabilities & Shareholders' Equity:		
Liabilities		
Deposits (Note 4)		
Noninterest bearing	$70,393	$72,413
Interest bearing	311,582	296,238
Total deposits	381,975	368,651
Federal funds purchased and securities sold under agreements to repurchase (Note 5)	35,400	27,500
Other borrowings (Note 5)	868	916
Accrued interest payable	929	1,270
Accounts payable and other liabilities	1,869	1,532
Total liabilities	421,041	399,869
Company obligated manditorily redeemable cumulative trust preferred securities of subsidiary trust holding solely junior subordinated debentures (Trust Preferred securities) (Note 6)	15,000	15,000
Commitments and Contingent Liabilities (Note 3)		
Shareholders' Equity (Notes 7 and 10)		
Common stock, no par value 10,000,000 shares authorized, 5,382,937 and 5,397,298 issued and outstanding, in 2002 and 2001, respectively	17,891	18,239
Retained earnings	19,391	18,582
Unearned ESOP shares (Note 5)	(823)	(873)
Accumulated other comprehensive income	(24)	111
Total shareholders' equity	36,435	36,059
Total liabilities and shareholders' equity	$472,476	$450,928

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See notes to financial statements

United Security Bancshares and Subsidiaries
Consolidated Statements of Income and Comprehensive Income
Three Months Ended March 31, 2002 and 2001 (unaudited)

(In thousands except shares and EPS)	2002	2001
Interest Income:		
Loans, including fees	$6,013	$6,835
Investment securities - AFS - taxable	741	713
Investment securities - HTM - taxable	0	152
Investment securities - AFS - nontaxable	36	40
Federal funds sold and securities purchased under agreements to resell	54	53
Total interest income	6,844	7,793
Interest Expense:		
Interest on deposits	2,194	2,941
Interest on other borrowings	519	475
Total interest expense	2,713	3,416
Net Interest Income Before Provision for Credit Losses	4,131	4,377
Provision for Credit Losses (Note 3)	620	375
Net Interest Income	3,511	4,002
Noninterest Income:		
Customer service fees	953	565
Gain on sale of securities	0	1
Gain on sale of other real estate owned	4	0
Gain on sale of fixed assets	0	8
Other	362	62
Total noninterest income	1,319	636
Noninterest Expense:		
Salaries and employee benefits	1,249	1,111
Occupancy expense	465	423
Data processing	138	123
Professional fees	197	53
Director fees	51	48
Amortization of intangibles	90	90
Correspondent bank service charges	69	47
Other	436	345
Total noninterest expense	2,695	2,240
Income Before Taxes on Income	2,135	2,398
Taxes on Income (Note 11)	619	885
Net Income	$1,516	$1,513
Other comprehensive income, net of tax:		
Unrealized (loss) gain on available for sale securities - net income tax (benefit) of $(90) and $50	(135)	75
Comprehensive Income	$1,381	$1,588
Net Income per common share (Note 9)		
Basic	$0.28	$0.28
Diluted	$0.28	$0.27
Shares on which net income per common share were based (Note 9)		
Basic	5,387,206	5,430,274
Diluted	5,487,304	5,577,221

See notes to financial statements

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United Security Bancshares and Subsidiaries
Consolidated Statements of Shareholders' Equity
Periods Ended March 31, 2002

(In thousands except shares)	Common stock Number of Shares	Common stock Amount	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total
Balance January 1, 2001	5,419,487	$19,178	$14,916	$(682)	$337	$33,749
Director/Employee stock options exercised	34,842	313				313
Net changes in unrealized gain loss) on available for sale securities (net of income tax of $49,801)					74	74
Dividends on common stock ($0.115 per share)			(634)			(634)
Unearned ESOP shares purchased	(20,655)			(363)		(363)
Release of unearned ESOP shares	3,244			56		56
Net Income			1,513			1,513
Balance March 31, 2001 (unaudited)	5,436,918	19,491	15,795	(989)	411	34,708
Director/Employee stock options exercised	69,988	493				493
Tax benefit of stock options exercised		145				145
Net changes in unrealized gain (loss) on available for sale securities (net of income tax benefit of $200,257)					(300)	(300)
Dividends on common stock ($0.345 per share)			(1,893)			(1,893)
Repurchase and cancellation of common shares	(115,786)	(1,884)				(1,884)
Unearned ESOP shares purchased	(2,530)			(36)		(36)
Release of unearned ESOP shares	8,708	(6)		152		146
Net Income			4,680			4,680
Balance December 31, 2001	5,397,298	18,239	18,582	(873)	111	36,059
Director/Employee stock options exercised	5,500	33				33
Tax benefit of stock options exercised		2				2
Net changes in unrealized gain (loss) on available for sale securities (net of income tax benefit of $89,850)					(135)	(135)
Dividends on common stock ($0.13 per share)			(707)			(707)
Repurchase and cancellation of common shares	(22,776)	(381)				(381)
Release of unearned ESOP shares	2,915	(2)		50		48
Net Income			1,516			1,516
Balance March 31, 2002 (unaudited)	5,382,937	$17,891	$19,391	$(823)	$(24)	$36,435

See notes to financial statements

United Security Bancshares and Subsidiaries
Consolidated Statements of Cash Flows
Periods Ended March 31, 2002 and 2001 (unaudited)

(In thousands)	2002	2001
Cash Flows From Operating Activities:		
Net income	$1,516	$1,513
Adjustments to reconcile net earnings to cash provided by operating activities:		
Provision for credit losses	620	375
Depreciation and amortization	310	292
Amortization (accretion) of investment securities	135	(8)
Gain on sale of securities	0	(1)
Increase in accrued interest receivable	(306)	(98)
Decrease in accrued interest payable	(341)	(78)
Decrease in unearned fees	(92)	(84)
Increase in income taxes payable	617	801
Decrease in accounts payable and accrued liabilities	(360)	(342)
Write-down of other investments	40	0
Gain on sale of other real estate owned	(4)	0
Gain on sale of assets	0	(8)

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Increase in surrender value of life insurance	(27)	(28)
Loss in limited partnership interest	57	45
Net increase in other assets	(996)	(139)
Net cash provided by operating activities	1,169	2,240
Cash Flows From Investing Activities:		
Purchases of available-for-sale securities	(17,364)	(20,691)
Net purchase of FHLB/FRB and other bank stock	(114)	(580)
Maturities and calls of available-for-sale securities	5,632	18,129
Net increase in loans	(8,926)	(14,906)
Proceeds from sales of other real estate owned	257	0
Capital expenditures for premises and equipment	(76)	(83)
Proceeds from sales of premises and equipment	0	23
Net cash used in investing activities	(20,591)	(18,108)
Cash Flows From Financing Activities:		
Net decrease in demand deposit and savings accounts	(2,325)	(5,555)
Net increase in certificates of deposit	15,649	25,389
Net decrease in federal funds purchased	0	(10,300)
Net increase in repurchase agreements	7,900	88
Director/Employee stock options exercised	33	313
Repurchase and retirement of common stock	(381)	0
Proceeds from ESOP borrowings	0	360
Repayment of ESOP borrowings	(49)	(53)
Purchase of unearned ESOP shares	0	(363)
Payment of dividends on common stock	(626)	(548)
Net cash provided by financing activities	20,201	9,331
Net increase (decrease) in cash and cash equivalents	779	(6,537)
Cash and cash equivalents at beginning of period	29,255	19,176
Cash and cash equivalents at end of period	$30,034	$12,639

See notes to financial statements

United Security Bancshares and Subsidiaries - Notes to Consolidated Financial Statements - (Unaudited)

1. Summary of Significant Accounting and Reporting Policies

The consolidated financial statements include the accounts of United Security Bancshares, Inc., and its wholly owned subsidiaries, United Security Bank and subsidiary (the "Bank"), and United Security Bancshares Capital Trust I (the "Trust"), (collectively the "Company"). Intercompany accounts and transactions have been eliminated in consolidation. In the following notes, references to the Bank are references to United Security Bank. References to the Company are references to United Security Bancshares, Inc. (including the Bank), except for periods prior to June 12, 2001, in which case, references to the Company are references to the Bank.

United Security Bancshares is a bank holding company, incorporated in the state of California for the purpose of acquiring all the capital stock of the Bank through a holding company reorganization (the "Reorganization") of the Bank. The Reorganization, which was accounted for in a manner similar to a pooling of interests, was completed on June 12, 2001. Management believes the reorganization will provide the Company greater operating and financial flexibility and will permit expansion into a broader range of financial services and other business activities.

United Security Bancshares Capital Trust I, a subsidiary of United Security Bancshares, is a Delaware statutory business trust formed for the exclusive purpose of issuing and selling Trust Preferred Securities. The Trust was formed on June 28, 2001 (See Note 6. "Trust Preferred Securities").

USB Investment Trust Inc. was incorporated effective December 31, 2001 as a special purpose real estate investment trust ("REIT") under Maryland law. The REIT is a subsidiary of the Bank and was funded with $133.0 million in real estate-secured loans contributed by the Bank. USB Investment Trust will give the Bank flexibility in raising capital, and will reduce the expenses associated with holding the assets contributed to USB Investment Trust.

These unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information on a basis consistent with the accounting policies reflected in the audited financial statements of the Company included in its Annual Report on Form 10-K for the year ended December 31, 2001. The consolidated financial statements of the Company for the periods prior to the Reorganization consist of those of the Bank. These interim financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of a normal recurring nature) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for any other interim period or for the year as a whole.

2. Securities Available for Sale

Following is a comparison of the amortized cost and approximate fair value of securities available for sale for the periods ended March 31, 2002 and December 31, 2001

Amortized	Gross Unrealized	Gross Unrealized	Fair Value (Carrying

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(In thousands)	Cost	Gains	Losses	Amount)
March 31, 2002:				
U.S. Government agencies	$54,550	$273	$(211)	$54,612
U.S. Government agency collateralized mortgage obligations	102	0	0	102
Obligations of state and political subdivisions	2,963	57	(5)	3,015
Other debt securities	17,163	0	(154)	17,009
	$74,778	$330	$(370)	$74,738
December 31, 2001:				
U.S. Government agencies	$42,341	$360	$(74)	$42,627
U.S. Government agency collateralized mortgage obligations	211	1	(2)	210
Obligations of state and political subdivisions	3,464	72	(4)	3,532
Other debt securities	17,164	0	(168)	16,996
	$63,180	$433	$(248)	$63,365

Included in other debt securities at March 31, 2002 and December 31, 2001, are a short-term government securities mutual fund totaling $10.0 million, a CRA qualified investment fund totaling $4.0 million, and Trust Preferred securities pools totaling $3.2 million. The short-term government securities mutual fund invests in debt securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities, with a maximum duration equal to that of a 3-year U.S. Treasury Note. The principal strategy of the CRA qualified investment fund is to invest in debt securities that will cause the shares of the fund to qualify under the Community Reinvestment Act of 1977 ("CRA") as CRA qualified investments. Such investments may include U.S. Government agencies, taxable municipal bonds, and certificates of deposit.

There were no realized gains or losses on sales of available-for-sale securities during the three-month period ended March 31, 2002. Realized gains on sale of available-for-sale securities totaled $846 during the three months ended March 31, 2001.

The amortized cost and fair value of securities available for sale at March 31, 2002, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 2002	
(In thousands)	Amortized Cost	Fair Value (Carrying Amount)
Due in one year or less	$10,166	$10,166
Due after one year through five years	41,458	41,482
Due after five years through ten years	5,225	5,292
Due after ten years	17,827	17,696
Collateralized mortgage obligations	102	102
	$74,778	$74,738

Contractual maturities on collateralized mortgage obligations cannot be anticipated due to allowed paydowns.

At March 31, 2002 and December 31, 2001, available-for-sale securities with an amortized cost of approximately $55,973,000 and $43,833,000 (fair value of $56,057,000 and $44,198,000) were pledged as collateral for public funds, treasury tax and loan balances, and repurchase agreements.

3. Loans

Loans include the following:

(In thousands)	March 31, 2002	December 31, 2001
Commercial and industrial	$102,957	$102,280
Real estate - mortgage	95,074	111,425
Real estate - construction	109,294	92,764
Agricultural	13,739	12,987
Installment/other	8,618	6,647
Lease financing	10,475	10,184
Total Loans	$340,157	$336,287

The Company's loans are predominantly in the San Joaquin Valley, and the greater Oakhurst/East Madera County area, although the Company does participate in loans with other financial institutions, primarily in the state of California.

Commercial and industrial loans represent 30.3% of total loans at March 31, 2002 and have a high degree of industry diversification. A substantial portion of the commercial and industrial loans are secured by accounts receivable, inventory, leases or other collateral including real estate. The remainder are unsecured; however, extensions of credit are predicated upon the financial capacity of the borrower. Repayment of commercial loans is generally from the cash flow of the borrower.

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Real estate mortgage loans, representing 28.0% of total loans at March 31, 2002, are secured by trust deeds on primarily commercial property. Repayment of real estate mortgage loans is generally from the cash flow of the borrower.

Real estate construction loans, representing 32.1% of total loans at March 31, 2002, consist of loans to residential contractors which are secured by single family residential properties. All real estate loans have established equity requirements. Repayment on construction loans is generally from long-term mortgages with other lending institutions.

Agricultural loans represent 4.0% of total loans at March 31, 2002 and are generally secured by land, equipment, inventory and receivables. Repayment is from the cash flow of the borrower.

Lease financing loans, representing 3.1% of total loans at March 31, 2002, consist of loans to small businesses which are secured by commercial equipment. Repayment of the lease obligation is from the cash flow of the borrower.

Loans over 90 days past due and still accruing interest totaled $848,000 at March 31, 2002. There were no loans over 90 days past due and still accruing interest at December 31, 2001. Nonaccrual loans totaled $7.3 million and $13.0 million at March 31, 2002 and December 31, 2001, respectively.

An analysis of changes in the allowance for credit losses is as follows:

(In thousands)	March 31, 2002	December 31, 2001	March 31, 2001
Balance, beginning of year	$4,457	$3,773	$3,773
Provision charged to operations	620	1,733	375
Losses charged to allowance	(67)	(1,076)	(398)
Recoveries on loans previously charged off	14	27	7
Balance at end-of-period	$5,024	$4,457	$3,757

The allowance for credit losses represents management's estimate of the risk inherent in the loan portfolio based on the current economic conditions, collateral values and economic prospects of the borrowers. Significant changes in these estimates might be required in the event of a downturn in the economy and/or the real estate market in the San Joaquin Valley, and the greater Oakhurst and East Madera County area.

At March 31, 2002 and 2001, the Company's recorded investment in loans for which impairment has been recognized totaled $7.3 million and $3.9 million. Included in this amount is $1.2 million and $385,000 of impaired loans for which the related specific allowance is $98,000 and $289,000, as well as $6.1 million and $3.5 million of impaired loans that as a result of write-downs or the fair value of the collateral, did not have a specific allowance. The average recorded investment in impaired loans was $10.8 million and $3.8 million for the three-month periods ended March 31, 2002 and 2001, respectively. At December 31, 2001, the Company's recorded investment in loans for which impairment has been recognized totaled $13.1 million. Included in this amount is $1.3 million of impaired loans for which the related specific allowance is $115,000, as well as $11.8 million of impaired loans that as a result of write-downs or the fair value of the collateral did not have a specific allowance. The average recorded investment in impaired loans was $5.7 for the year ended December 31, 2001. In most cases, the Company uses the cash basis method of income recognition for impaired loans. In the case of certain troubled debt restructuring for which the loan is performing under the current contractual terms, income is recognized under the accrual method. For the three months ended March 31, 2002 and 2001, the Company recognized no income on such loans. For the year ended December 31, 2001, the Company recognized $23,000 on such loans.

In the normal course of business, the Company is party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. At March 31, 2002 and December 31, 2001 these financial instruments include commitments to extend credit of $106.7 million and $108.1 million, respectively, and standby letters of credit of $6.4 million and $6.3 million, respectively. These instruments involve elements of credit risk in excess of the amount recognized on the balance sheet. The contract amounts of these instruments reflect the extent of the involvement the bank has in off-balance sheet financial instruments.

The Company' s exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amounts of those instruments. The Bank uses the same credit policies as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer, as long as there is no violation of any condition established in the contract. Substantially all of these commitments are at floating interest rates based on prime. Commitments generally have fixed expiration dates. The Company evaluates each customer's creditworthiness on a case by case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation. Collateral held varies but includes accounts receivable, inventory, leases, property, plant and equipment, residential real estate and income-producing properties.

Standby letters of credit are generally unsecured and are issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

4. Deposits

Deposits include the following:

(In thousands)	March 31, 2002	December 31, 2001
Noninterest bearing deposits	$70,393	$72,413
Interest bearing deposits:		
NOW and money market accounts	83,822	83,316
Savings accounts	19,072	19,883
Time deposits:		
Under $100,000	65,032	68,414
$100,000 and over	143,656	124,625
Total interest bearing deposits	311,582	296,238

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Total deposits	$381,975	$368,651

At March 31, 2002, the scheduled maturities of all certificates of deposit and other time deposits are as follows:

(In thousands)	
One year or less	$176,531
More than one year, but less than or equal to two years	28,739
More than two years, but less than or equal to three years	1,086
More than three years, but less than or equal to four years	1,922
More than four years, but less than or equal to five years	399
More than five years	11
	$208,688

5. Short-term Borrowings/Other Borrowings

At March 31, 2002, the Company had collateralized and uncollateralized lines of credit with aggregating $151.0 million, as well as FHLB lines of credit totaling $ 37.1 million. Advances on the FHLB lines of credit totaled $34.5 million at March 31, 2002. These lines of credit generally have interest rates tied to the Federal Funds rate or are indexed to short-term U.S. Treasury rates or LIBOR. FHLB advances are collateralized by all of the Company' s stock in the FHLB and certain qualifying mortgage loans. All lines of credit are on an "as available" basis and can be revoked by the grantor at any time.

The Company had collateralized and uncollateralized lines of credit with aggregating $119.6 million, as well as repurchase agreement lines of credit totaling $5.3 million and FHLB lines of credit totaling $ 35.6 million at December 31, 2001. As of that date, investment securities of $5.6 million (including accrued interest) were pledged as collateral for repurchase agreements and $64.9 million in real estate-secured loans were pledged as collateral for FHLB advances

The table below provides further detail of the Company's repurchase agreements and FHLB advances for the years ended March 31, 2002 and December 31, 2001:

(In thousands)	March 31, 2002	December 31, 2001
Outstanding:		
Average for the period - Repos	$883	$12,048
Average for the period - FHLB advances	$23,227	$19,255
Maximum during the period - total borrowings	$35,400	$38,250
Interest rates:		
Average for the period - Repos	1.96%	4.90%
Average for the period - FHLB advances	4.58%	4.79%
Average at period end - Repos	---	1.93%
Average at period end - FHLB advances	4.17%	4.66%

On June 20, 2000, the Company' s ESOP entered into an agreement with a correspondent bank to establish a $1.0 million unsecured revolving line of credit with a variable rate of prime plus 100 basis points and maturity of June 20, 2005. The loan is guaranteed by the Company. Advances on the line totaled $868,000 at March 31, 2002.

6. Trust Preferred Securities

On July 16, 2001, the Company' s wholly owned special-purpose trust subsidiary, United Security Bancshares Capital Trust I (the "Trust") issued $15 million in cumulative Trust Preferred Securities. The securities bear a floating rate of interest of 3.75% over the six month LIBOR rate, payable semi-annually. Concurrent with the issuance of the Trust Preferred Securities, the Trust used the proceeds from the Trust Preferred Securities offering to purchase a like amount of Junior Subordinated Debentures of the Company. The Subordinated Debentures are the sole assets of the Trust and are eliminated, along with the related income statement effects, in the consolidated financial statements. The Company will pay interest on the Junior Subordinated Debentures to the Trust, which represents the sole revenues and sole source of dividend distributions to the holders of the Trust Preferred Securities. The Company has the right, assuming no default has occurred, to defer payments of interest on the Junior Subordinated Debentures at any time for a period not to exceed 20 consecutive quarters. The Trust Preferred Securities will mature on July 25, 2031, but can be redeemed after July 25, 2006 at a premium, and can be redeemed after July 25, 2011 at par. The obligations of the Trust are fully and unconditionally guaranteed, on a subordinated basis, by the Company.

The Company received $14.5 million from the Trust upon issuance of the Junior Subordinated Debentures, of which $13.7 million was contributed by the Company to the Bank to increase its capital. Under applicable regulatory guidelines, the Company expects that a portion of the Trust Preferred Securities will qualify as Tier I Capital, and the remainder as Tier II Capital.

Issuance costs of $495,000 related to the Trust Preferred Securities have been deferred and will be amortized over the 30-year life of the securities. Interest expense on the Trust Preferred Securities totaled $234,000 and amortization expense totaled $4,000 for the three months ended March 31, 2002.

7. Regulatory Matters

Capital Guidelines - The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements adopted by the Board of Governors of the Federal Reserve System ("Board of Governors"). Failure to meet minimum capital requirements can initiate certain mandates and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company' s consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require insured institutions to maintain a minimum leverage ratio of Tier 1 capital (the sum of common stockholders' equity, noncumulative perpetual preferred stock and minority interests in consolidated subsidiaries, minus intangible assets, identified losses and investments in certain

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subsidiaries, plus unrealized losses or minus unrealized gains on available for sale securities) to total assets. Institutions which have received the highest composite regulatory rating and which are not experiencing or anticipating significant growth are required to maintain a minimum leverage capital ratio of 3% Tier 1 capital to total assets. All other institutions are required to maintain a minimum leverage capital ratio of at least 100 to 200 basis points above the 3% minimum requirement.

The Board of Governors has also adopted a statement of policy, supplementing its leverage capital ratio requirements, which provides definitions of qualifying total capital (consisting of Tier 1 capital and supplementary capital, including the allowance for loan losses up to a maximum of 1.25% of risk-weighted assets) and sets forth minimum risk-based capital ratios of capital to risk-weighted assets. Insured institutions are required to maintain a ratio of qualifying total capital to risk weighted assets of 8%, at least one-half of which must be in the form of Tier 1 capital.

The following table sets forth the Company's and the Bank's actual capital positions at the periods presented:

	March 31, 2002	December 31, 2001	March 31, 2001
Company:			
Total Capital (to Risk Weighted Assets)	13.17%	12.89%	N/A
Tier I Capital (to Risk Weighted Assets)	11.03%	10.82%	N/A
Tier I Capital (to Average Assets)	10.06%	10.20%	N/A
Bank:			
Total Capital (to Risk Weighted Assets)	12.57%	12.48%	10.74%
Tier I Capital (to Risk Weighted Assets)	11.34%	11.38%	9.59%
Tier I Capital (to Average Assets)	10.29%	10.67%	8.82%

As of March 31, 2002 and December 31, 2001, the most recent notifications from the Bank' s regulators categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total capital and Tier 1 capital (as defined) to risk-based assets (as defined), and a minimum leverage ratio of Tier 1 capital to average assets (as defined) as set forth in the proceeding discussion. There are no conditions or events since the notification that management believes have changed the institution' s category.

Management believes that, under regulatory guidelines, the $15 million in Trust Preferred Securities issued in July of 2001 will qualify as Tier 1 capital up to 25% of Tier 1 capital. Any additional portion of Trust Preferred Securities will qualify as Tier 2 capital.

Dividends - Subsequent to the Reorganization on June 12, 2001, dividends paid to shareholders will be paid by the bank holding company, subject to restrictions set forth in the California General Corporation Law. The primary source of funds with which dividends will be paid to shareholders will come from cash dividends received by the Company from the Bank. Year-to-date as of March 31, 2001, the Company has received $1,950,000 in cash dividends from the Bank, from which the Company has declared or paid $1,332,000 in dividends to shareholders.

Under California state banking law, the Bank may not pay cash dividends in an amount which exceeds the lesser of the retained earnings of the Bank or the Bank' s net income for the last three fiscal years (less the amount of distributions to shareholders during that period of time). If the above test is not met, cash dividends may only be paid with the prior approval of the California State Department of Financial Institutions, in an amount not exceeding the greater of: (i) the Bank' s retained earnings; (ii) its net income for the last fiscal year; or (iii) its net income for the current fiscal year. As of March 31, 2002, approximately $6.5 million was available to the Bank for cash dividend distributions without prior approval. Year-to-date, the Bank has paid dividends of $1,950,000 to the Company.

8. Supplemental Cash Flow Disclosures

(In thousands)	Three Months Ended March 31, 2002	2001
Cash paid during the period for:		
Interest	$3,055	$3,495
Income Taxes	0	84
Noncash investing activities:		
Loans transferred to foreclosed property	5,030	0
Dividends declared not paid	705	632

9. Net Income Per Share

The following table provides a reconciliation of the numerator and the denominator of the basic EPS computation with the numerator and the denominator of the diluted EPS computation:

(In thousands except earnings per share data)	Three Months Ended March 31, 2002	2001
Net income available to common shareholders	$1,516	$1,513
Weighted average shares issued	5,436	5,486
Less: unearned ESOP shares	(49)	(56)
Weighted average shares outstanding	5,387	5,430
Add: dilutive effect of stock options	100	147
Weighted average shares outstanding adjusted for potential dilution	5,487	5,577
Basic earnings per share	$0.28	$0.28
Diluted earnings per share	$0.28	$0.27

10. Common Stock Repurchase Plan

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During August 2001, the Company' s Board of Directors approved a plan to repurchase, as conditions warrant, up to 280,000 shares of the Company' s common stock on the open market or in privately negotiated transactions. The duration of the program is open-ended and the timing of the purchases will depend on market conditions. During the three months ended March 31, 2002, the Company repurchased 22,776 shares for a total of $381,000. During the year ended December 31, 2001, the Company repurchased 115,786 shares for a total of $1.9 million. The repurchased shares were subsequently retired.

11. Income Taxes

The effective tax rate for the three months ended March 31, 2002 was 29.0% as compared to 36.9% for the three months ended March 31, 2001 and 33.9% for the year ended December 31. 2001. The decline in the Company' s effective tax rate during 2002, was primarily the result of the formation of USB Investment Trust, Inc., as a subsidiary of the Bank during January of 2002. The subsidiary was formed as a special purpose real estate investment trust ("REIT") under Maryland law.

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Certain matters discussed or incorporated by reference in this Quarterly Report of Form 10-Q are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Such risks and uncertainties include, but are not limited to, those described in Management' s Discussion and Analysis of Financial Condition and Results of Operations. Therefore, the information set forth therein should be carefully considered when evaluating the business prospects of the Company.

On June 12, 2001, the United Security Bank (the "Bank") became the wholly owned subsidiary of United Security Bancshares, Inc. (the "Company") through a tax free holding company reorganization, accounted for on a basis similar to the pooling of interest method. In the transaction, each share of Bank stock was exchanged for a share of Company stock on a one-to-one basis. No additional equity was issued as part of this transaction. In the following discussion, references to the Bank are references to United Security Bank. References to the Company are references to United Security Bancshares, Inc. (including the Bank), except for periods prior to June 12, 2001, in which case, references to the Company are references to the Bank.

On June 28, 2001, United Security Bancshares Capital Trust I (the "Trust") was formed as a Delaware business trust for the sole purpose of issuing Trust Preferred securities. On July 16, 2001, the Trust completed the issuance of $15 million in Trust Preferred securities, and concurrently, the Trust used the proceeds from that offering to purchase Junior Subordinated Debentures of the Company. The Company subsequently contributed $13.7 million of the $14.5 million in net proceeds received from the Trust to the Bank to increase its regulatory capital.

The Company continues to seek ways to better meet its customers' needs for financial services, expand into new markets and compete in today's financial services environment. The Company's strategy is to be a better low-cost provider of services to its customer base while enlarging its market area and corresponding customer base to further its ability to provide those services. The Company currently has seven banking branches, which provide financial services in Fresno and Madera counties.

Results of Operations

For the three months ended March 31, 2002, the Company reported net income of $1.516 million or $0.28 per share ($0.28 diluted) as compared to $1.513 million or $0.28 per share ($0.27 diluted) for the three months ended March 31, 2001. The Company' s return on average assets was 1.36% for the three months ended March 31, 2002 as compared to 1.73% for the same three-month period of 2001. The Bank' s return on average equity was 16.76% for the three months ended March 31, 2002 as compared to 17.78% for the same three-month period of 2001.

Net Interest Income

Net interest income, the most significant component of earnings, is the difference between the interest and fees received on earning assets and the interest paid on interest-bearing liabilities. Earning assets consist primarily of loans, and to a lesser extent, investments in securities issued by federal, state and local authorities, and corporations. These earning assets are funded by a combination of interest-bearing and noninterest-bearing liabilities, primarily customer deposits and short-term and long-term borrowings. Net interest income before provision for credit losses totaled $4.1 million for the three months ended March 31, 2002, representing a decrease of $246,000 or 5.6% when compared to the $4.4 million reported for the same three months of the previous year. The decrease in net interest income between 2001 and 2002 is primarily the result of a significant decline in market rates of interest, which was only partially offset by growth in earning assets between these two three-month periods.

The Bank's net interest margin, as shown in Table 1, decreased to 4.07% at March 31, 2002 from 5.44% at March 31, 2001, a decrease of 137 basis points (100 basis points = 1%) between the two periods. Market rates of interest decreased significantly between the three-month periods ended March 31, 2001 and 2002. The prime rate averaged 4.75% for the three months ended March 31, 2002 as compared to 8.63% for the comparative three months of 2001.

Table 1. - Distribution of Average Assets, Liabilities and Shareholders' Equity:
Interest rates and Interest Differentials
Periods Ended March 31, 2002 and 2001

(dollars in thousands)	2002 Average Balance	2002 Interest	2002 Yield/ Rate	2001 Average Balance	2001 Interest	2001 Yield/ Rate
Assets:						
Interest-earning assets:						
Loans (1)	$336,801	$6,013	7.24%	$267,705	$6,835	10.35%
Investment Securities - taxable	59,333	741	5.06%	51,275	865	6.84%
Investment Securities - nontaxable (2)	3,035	36	4.81%	3,317	40	4.89%
Federal funds sold and reverse repos	12,644	54	1.73%	3,834	53	5.61%
Total interest-earning assets	411,813	$6,844	6.74%	326,131	$7,793	9.69%
Allowance for possible loan losses	(4,819)			(3,735)		
Noninterest-bearing assets:						
Cash and due from banks	16,424			12,286		

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Premises and equipment, net	3,014			3,379		
Accrued interest receivable	3,357			3,297		
Other real estate owned	7,156			2,661		
Other assets	15,382			11,574		
Total average assets	$452,327			$355,593		
Liabilities and Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$25,855	$53	0.83%	$23,592	$101	1.74%
Money market accounts	59,707	312	2.12%	40,471	388	3.89%
Savings accounts	19,273	42	0.88%	17,630	93	2.14%
Time deposits	193,187	1,787	3.75%	155,257	2,359	6.16%
Other borrowings	25,308	281	4.50%	30,879	475	6.24%
Trust Preferred securities	15,000	238	6.43%	0	0	0.00%
Total interest-bearing liabilities	338,330	$2,713	3.25%	267,829	$3,416	5.17%
Noninterest-bearing liabilities:						
Noninterest-bearing checking	75,062			50,484		
Accrued interest payable	1,020			1,319		
Other liabilities	1,226			1,445		
Total Liabilities	415,638			321,077		
Total shareholders' equity	36,689			34,516		
Total average liabilites and Shareholders' equity	$452,327			$355,593		
Interest income as a percentage of average earning assets			6.74%			9.69%
Interest expense as a percentage of average earning assets			2.67%			4.25%
Net interest margin			4.07%			5.44%

(1) Loan amounts include nonaccrual loans, but the related interest income has been included only if collected for the period prior to the loan being placed on a nonaccrual basis. Loan interest income includes loan fees of approximately $324,000 and $347,000 for the three months ended March 31, 2002 and 2001, respectively.

(2) Applicable nontaxable securities yields have not been calculated on a tax-equivalent basis because they are not material to the Company's results of operations.

Both the Company's net interest income and net interest margin are affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as "volume change." Both are also affected by changes in yields on interest-earning assets and rates paid on interest-bearing liabilities, referred to as "rate change". The following table sets forth the changes in interest income and interest expense for each major category of interest-earning asset and interest-bearing liability, and the amount of change attributable to volume and rate changes for the periods indicated.

Table 2. Rate and Volume Analysis

	Increase (decrease) in the three months ended March 31, 2002 compared to March 31, 2001		
(In thousands)	Total	Rate	Volume
Increase (decrease) in interest income:			
Loans	$(822)	$(2,348)	$1,526
Investment securities	(128)	(246)	118
Federal funds sold and securities purchased under agreements to resell	1	(56)	57
Total interest income	(949)	(2,650)	1,701
Increase (decrease) in interest expense:			
Interest-bearing demand accounts	(124)	(257)	133
Savings accounts	(51)	(59)	8
Time deposits	(572)	(1,063)	491
Other borrowings	(194)	(118)	(76)
Trust Preferred securities	238	0	238
Total interest expense	(703)	(1,497)	794
Increase in net interest income	$(246)	$(1,153)	$907

For the three months ended March 31, 2002, total interest income decreased approximately $949,000 or 12.2% as compared to the three months ended March 31, 2001. The change is attributable primarily to a substantial decrease in market rates of interest, which was only partially offset by an increase in the overall volume of earning assets. Earning asset growth was mostly in loans and, to a smaller degree, in investment securities and federal funds sold.

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For the three months ended March 31, 2002, total interest expense decreased approximately $703,000 or 20.6% as compared to the three-month period ended March 31, 2001. While average interest-bearing liabilities increased by $70.5 million between the three-month periods ended March 31, 2002 and 2001, the average rate paid on those liabilities declined by 192 basis points, which more than outweighed in the increase in volume.

Provisions for credit losses and the amount added to the allowance for credit losses is determined on the basis of management's continuous credit review of the loan portfolio, consideration of past loan loss experience, current and future economic conditions, and other pertinent factors. Such factors consider the allowance for credit losses to be adequate when it covers estimated losses inherent in the loan portfolio. Based on the condition of the loan portfolio, management believes the allowance is sufficient to cover risk elements in the loan portfolio. For the three months ending March 31, 2002 the provision to the allowance for credit losses amounted to $620,000 as compared to $375,000 for the three months ended March 31, 2001. The amount provided to the allowance for credit losses during the first three months brought the allowance to 1.48% of net outstanding loan balances at March 31, 2002, as compared to 1.33% of net outstanding loan balances at December 31, 2001, and 1.36% at March 31, 2001.

Noninterest Income

Noninterest income consists primarily of fees and commissions earned on services that are provided to the Company' s banking customers. Noninterest income for the three months ended March 31, 2002 increased $683,000 when compared to the same period last year. An increase in customer service fees accounted for $388,000 or more than half of the increase in total noninterest income between the two three-month periods presented, and is are attributable to growth in checking service charges, as well as overdraft and ATM fee income. Increases in other noninterest income accounted for another $300,000 of the total increase in noninterest income between the two periods. Of the increase in other noninterest income, $249,000 is attributable to shared appreciation income on commercial real estate.

Noninterest Expense

The following table sets forth the amount and percentage changes in the categories presented for the three months ended March 31, 2002 as compared to the three months ended March 31, 2001:

Table 3. Changes in Noninterest Expense

(In thousands)	Amount	Percent
Salaries and employee benefits	$138	12.41%
Occupancy expense	42	9.83%
Data processing	15	12.51%
Professional fees	144	275.20%
Directors fees	3	7.11%
Amortization of intangibles	0	0.00%
Correspondent bank service charges	22	48.17%
Other	91	25.87%
Total noninterest expense	$455	20.31%

Noninterest expense, excluding provision for credit losses and income tax expense, totaled $2.7 million for the three months ended March 31, 2002 as compared to $2.2 million for the same three-month period of 2001, representing an increase of $455,000 or 20.3% between the two periods. Increases in salaries and employee benefits were the result of additional staff to support the Company' s strategic long-term growth objectives, as well as normal wage and benefit increases combined with increased medical insurance costs incurred during the year. Professional fees increased between the three-month periods presented as the result of additional expenses incurred during 2002 for legal fees associated with impaired loans and costs of forming the Bank' s REIT subsidiary.

Financial Condition

Total assets increased to $472.5 million at March 31, 2002, up from $368.0 million at the end of the same period last year, and up from the balance of $450.9 million at December 31, 2001. Total deposits of $382.0 million at March 31, 2002 increased $90.3 million or 30.9% from the balance reported at March 31, 2001, and increased $13.3 million or 3.6% from the balance of $368.7 million reported at December 31, 2001. Between December 31, 2001 and March 31, 2002, loan growth totaled $3.9 million, while securities and other short-term investments increased $8.8 million.

Earning assets averaged approximately $411.8 million during the three months ended March 31, 2002, as compared to $326.1 million for the same three-month period of 2001. Average interest-bearing liabilities increased to $338.3 million for the three months ended March 31, 2002, as compared to $267.8 million for the comparative three-month period of 2001.

Loans

The Company's primary business is that of acquiring deposits and making loans, with the loan portfolio representing the largest and most important component of its earning assets. Loans totaled $340.2 million at March 31, 2002, an increase of $3.9 million or 1.2% when compared to the balance of $336.3 million at December 31, 2001, and an increase of $63.9 million or 23.1% when compared to the balance of $276.3 million reported at March 31, 2001. Loans on average rose 25.8% between the three-month periods ended March 31, 2001 and March 31, 2002, with loans averaging $336.8 million for the three months ended March 31, 2002, as compared to $267.7 million for the same three-month period of 2001.

During the first three months of 2002, increases were experienced in all loan categories except real estate mortgage loans. The following table sets forth the amounts of loans outstanding by category at March 31, 2002 and December 31, 2001, the category percentages as of those dates, and the net change between the two periods presented.

Table 4. Loans

	March 31, 2002		December 31, 2001			
(In thousands)	Dollar Amount	% of Loans	Dollar Amount	% of Loans	Net Change	% Change
Commercial and industrial	$102,957	30.3%	$102,280	30.4%	$677	0.66%
Real estate - mortgage	95,074	28.0%	111,425	33.1%	(16,351)	-14.67%
Real estate - construction	109,294	32.1%	92,764	27.6%	16,530	17.82%

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Agricultural	13,739	4.0%	12,987	3.9%	752	5.80%
Installment/other	8,618	2.5%	6,647	2.0%	1,971	29.66%
Lease financing	10,475	3.1%	10,184	3.0%	291	2.86%
Total Loans	$340,157	100.0%	$336,287	100.0%	$3,870	1.15%

The overall average yield on the loan portfolio was 7.24% for the three months ended March 31, 2002 as compared to 10.35% for the three months ended March 31, 2001, and decreased between the two periods as the result of a significant decline in market rates of interest between the two periods. At March 31, 2002, 65.4% of the Company's loan portfolio consisted of floating rate instruments, as compared to 65.2% of the portfolio at December 31, 2001, with the majority of those tied to the prime rate.

Deposits

Total deposits increased during the period to a balance of $382.0 million at March 31, 2002 representing an increase of $13.3 million or 3.6% from the balance of $368.7 million reported at December 31, 2001, and an increase of $90.3 million or 31.0% from the balance reported at March 31, 2001. During the first quarter of 2002, increases were experienced primarily in time deposits greater than $100,000, with modest declines in all other deposit categories except NOW and money market accounts. The increase in time deposits is the result of additional brokered deposits taken during the first three months of 2002.

The following table sets forth the amounts of deposits outstanding by category at March 31, 2002 and December 31, 2001, and the net change between the two periods presented.

Table 5. Deposits

(In thousands)	March 31, 2002	December 31, 2001	Net Change	Percentage Change
Noninterest bearing deposits	$70,393	$72,413	$(2,020)	-2.79%
Interest bearing deposits:				
NOW and money market accounts	83,822	83,316	506	0.61%
Savings accounts	19,072	19,883	(811)	-4.08%
Time deposits:				
Under $100,000	65,032	68,414	(3,382)	-4.94%
$100,000 and over	143,656	124,625	19,031	15.27%
Total interest bearing deposits	311,582	296,238	15,344	5.18%
Total deposits	$381,975	$368,651	$13,324	3.61%

The Company's deposit base consists of two major components represented by noninterest-bearing (demand) deposits and interest-bearing deposits. Interest-bearing deposits consist of time certificates, NOW and money market accounts and savings deposits. Total interest-bearing deposits increased $15.3 million or 5.18% between December 31, 2001 and March 31, 2002, while noninterest-bearing deposits decreased $2.0 million or 2.79% between the same two periods presented. Core deposits, consisting of all deposits other than time deposits of $100,000 or more, and brokered deposits, continue to provide the foundation for the Company's principal sources of funding and liquidity. These core deposits amounted to 61.9% and 65.5% of the total deposit portfolio at March 31, 2002 and December 31, 2001, respectively.

On a year-to-date average (refer to Table 1), the Company experienced an increase of $85.7 million or 29.8% in total deposits between the three month periods ended March 31, 2001 and March 31, 2002. Between these two periods, average interest-bearing deposits increased $61.1 million or 25.8%, while total noninterest-bearing checking increased $24.6 million or 48.7% on a year-to-date average basis.

Short-term Borrowings

The Company has the ability to obtain borrowed funds consisting of federal funds purchased, securities sold under agreements to repurchase (“repurchase agreements”) and Federal Home Loan Bank (“FHLB”) advances as alternatives to retail deposit funds. The Company has established collateralized and uncollateralized lines of credit with several correspondent banks, as well as a securities dealer, for the purpose of obtaining borrowed funds as needed. The Company may continue to borrow funds in the future as part of its asset/liability strategy, and may use these funds to acquire certain other assets as deemed appropriate by management for investment purposes and to better utilize the capital resources of the Bank. Federal funds purchased represent temporary overnight borrowings from correspondent banks and are generally unsecured. Repurchase agreements are collateralized by mortgage backed securities and securities of U.S. Government agencies, and generally have maturities of one to six months, but may have longer maturities if deemed appropriate as part of the Company’ s asset/liability management strategy. FHLB advances are collateralized by all of the Company’ s stock in the FHLB and certain qualifying mortgage loans. In addition, the Company has the ability to obtain borrowings from the Federal Reserve Bank of San Francisco, which would be collateralized by certain pledged loans in the Company’ s loan portfolio. The lines of credit are subject to periodic review of the Company’ s financial statements by the grantors of the credit lines. Lines of credit may be modified or revoked at any time if the grantors feel there are adverse trends in the Company’ s financial position.

The Company had collateralized and uncollateralized lines of credit aggregating $151.0 million, as well as FHLB lines of credit totaling $37.1 million at March 31, 2002. These lines of credit generally have interest rates tied to the Federal Funds rate or are indexed to short-term U.S. Treasury rates or LIBOR. FHLB advances are collateralized by all of the Company’ s stock in the FHLB and certain qualifying mortgage loans. All lines of credit are on an “as available” basis and can be revoked by the grantor at any time. At March 31, 2002, the Company had advances on the FHLB line of credit totaling $35.4 million. The Company had collateralized and uncollateralized lines of credit aggregating $119.6 million, as well as a repurchase agreement line of credit of $5.3 million and FHLB lines of credit totaling $35.6 million at December 31, 2001. The Company had repurchase agreements of $5.3 million and FHLB advances of $22.2 million outstanding at December 31, 2001.

Asset Quality and Allowance for Credit Losses

Lending money is the Company's principal business activity, and ensuring appropriate evaluation, diversification, and control of credit risks is a primary management responsibility. Implicit in lending activities is the fact that losses will be experienced and that the amount of such losses will vary from time to time, depending on the risk characteristics of the loan portfolio as affected by local economic conditions and the financial experience of borrowers.

The allowance for credit losses is maintained at a level deemed appropriate by management to provide for known and inherent risks in existing loans and commitments to extend credit. The adequacy of the allowance for credit losses is based upon management's continuing assessment of various factors affecting the collectibility of loans and commitments to extend credit; including current economic conditions, past credit experience, collateral, and concentrations of credit. There is no precise method of predicting specific losses or amounts which may ultimately be charged off on particular segments of the loan portfolio. The conclusion that a loan may become uncollectible, either in part or in whole, is judgmental and subject to economic, environmental, and other conditions which cannot be predicted with certainty. When determining the adequacy of the allowance for credit losses, the Company follows the guidelines set forth

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in the Interagency Policy Statement on the Allowance for Loan and Lease Losses ("Statement") issued jointly by banking regulators during July 2001. The Statement outlines characteristics that should be used in segmentation of the loan portfolio for purposes of the analysis including risk classification, past due status, type of loan, industry or collateral. It also outlines factors to consider when adjusting the loss factors for various segments of the loan portfolio. Securities and Exchange Commission Staff Accounting Bulletin No. 102 was also released at this time which represents the SEC staff' s view relating to methodologies and supporting documentation for the Allowance for Loan and Lease Losses that should be observed by all public companies in complying with the federal securities laws and the Commission' s interpretations. It is also generally consistent with the guidance published by the banking regulators.

The Company' s methodology for assessing the adequacy of the allowance for credit losses consists of several key elements, which include:

- the formula allowance,
- specific allowances for problem graded loans ("classified loans")
- and the unallocated allowance

In addition, the allowance analysis also incorporates the results of measuring impaired loans as provided in:

- Statement of Financial Accounting Standards ("SFAS") No. 114,
  "Accounting by Creditors for Impairment of a Loan" and
- SFAS 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures."

The formula allowance is calculated by applying loss factors to outstanding loans and certain unfunded loan commitments. Loss factors are based on the Company' s historical loss experience and on the internal risk grade of those loans and, may be adjusted for significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. Management determines the loss factors for problem graded loans (substandard, doubtful, and loss), special mention loans, and pass graded loans, based on a loss migration model. The migration analysis incorporates loan losses over the past twelve quarters (three years) and loss factors are adjusted to recognize and quantify the loss exposure from changes in market conditions and trends in the Company' s loan portfolio. For purposes of this analysis, loans are grouped by internal risk classifications which are "pass", "special mention", "substandard", "doubtful", and "loss". Certain loans are homogenous in nature and are therefore pooled by risk grade. These homogenous loans include consumer installment and home equity loans. Special mention loans are currently performing but are potentially weak, as the borrower has begun to exhibit deteriorating trends, which if not corrected, could jeopardize repayment of the loan and result in further downgrade. Substandard loans have well-defined weaknesses which, if not corrected, could jeopardize the full satisfaction of the debt. A loan classified as "doubtful" has critical weaknesses that make full collection of the obligation improbable. Classified loans, as defined by the Company, include loans categorized as substandard, doubtful, and loss.

Specific allowances are established based on management' s periodic evaluation of loss exposure inherent in classified loans, impaired loans, and other loans in which management believes there is a probability that a loss has been incurred in excess of the amount determined by the application of the formula allowance.

The unallocated portion of the allowance is based upon management' s evaluation of various conditions that are not directly measured in the determination of the formula and specific allowances. The conditions may include, but are not limited to, general economic and business conditions affecting the key lending areas of the Company, credit quality trends, collateral values, loan volumes and concentrations, and other business conditions.

The Company' s methodology includes features that are intended to reduce the difference between estimated and actual losses. The specific allowance portion of the analysis is designed to be self-correcting by taking into account the current loan loss experience based on that portion of the portfolio. By analyzing the probable estimated losses inherent in the loan portfolio on a quarterly basis, management is able to adjust specific and inherent loss estimates using the most recent information available. In performing the periodic migration analysis, management believes that historical loss factors used in the computation of the formula allowance need to be adjusted to reflect current changes in market conditions and trends in the Company' s loan portfolio. There are a number of other factors which are reviewed when determining adjustments in the historical loss factors. They include 1) trends in delinquent and nonaccrual loans, 2) trends in loan volume and terms, 3) effects of changes in lending policies, 4) concentrations of credit, 5) competition, 6) national and local economic trends and conditions, 7) experience of lending staff, 8) loan review and Board of Directors oversight, and 9) other business conditions. During the first quarter of 2002, there were no changes in estimation methods or assumptions that affected the methodology for assessing the adequacy of the allowance for credit losses.

Management and the Company' s lending officers evaluate the loss exposure of classified and impaired loans on a weekly/monthly basis and through discussions and officer meetings as conditions change. The Company' s Loan Committee meets weekly and serves as a forum to discuss specific problem assets that pose significant concerns to the Company, and to keep the Board of Directors informed through committee minutes. All special mention and classified loans are reported quarterly on Criticized Asset Reports which are reviewed by senior management. With this information, the migration analysis and the impaired loan analysis are performed on a quarterly basis and adjustments are made to the allowance as deemed necessary.

Impaired loans are measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. The amount of impaired loans is not directly comparable to the amount of nonperforming loans disclosed later in this section. The primary differences between impaired loans and nonperforming loans are: i) all loan categories are considered in determining nonperforming loans while impaired loan recognition is limited to commercial and industrial loans, commercial and residential real estate loans, construction loans, and agricultural loans, and ii) impaired loan recognition considers not only loans 90 days or more past due, restructured loans and nonaccrual loans but also may include problem loans other than delinquent loans.

The Company considers a loan to be impaired when, based upon current information and events, it believes it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans include nonaccrual loans, restructured debt, and performing loans in which full payment of principal or interest is not expected. Management bases the measurement of these impaired loans on the fair value of the loan's collateral or the expected cash flows on the loans discounted at the loan's stated interest rates. Cash receipts on impaired loans not performing to contractual terms and that are on nonaccrual status are used to reduce principal balances. Impairment losses are included in the allowance for credit losses through a charge to the provision, if applicable.

At March 31, 2002 and 2001, the Company's recorded investment in loans for which impairment has been recognized totaled $7.3 million and $3.9 million, respectively. Included in total impaired loans at March 31, 2002, is $1.2 million of impaired loans for which the related specific allowance is $98,000, as well as $6.1 million of impaired loans that as a result of write-downs or the fair value of the collateral, did not have a specific allowance. Total impaired loans at March 31, 2001 included $385,000 of impaired loans for which the related specific allowance is $289,000, as well as $3.5 million of impaired loans that as a result of write-downs or the fair value of the collateral, did not have a specific allowance. The average recorded investment in impaired loans was $10.8 million during the first three months of 2002, and $3.8 million during the first three months of 2001. In most cases, the Bank uses the cash basis method of income recognition for impaired loans. In the case of certain troubled debt restructuring for which the loan is performing under the current contractual terms, income is recognized under the accrual method. For the three months ended March 31, 2002 and 2001, the Bank recognized no income on such loans.

Other factors that continue to gain management' s attention are competition in the Company' s market area and economic conditions, which may ultimately affect the risk assessment of the portfolio. The Company has experienced increased competition from major banks, local independents and non-bank institutions creating pressure on loan pricing. After the Federal Reserve raised interest rates 75 basis points during 1999 and an additional 100 basis points by mid-2000, the domestic economy began to slow in the third quarter, and stall during the fourth quarter of 2000. As a result, the Federal Reserve began to cut interest rates in the first week of January 2001, and by December 31, 2001, had reduced interest rates by an unprecedented 475 basis points. We have gone from what was possibly considered the longest economic expansion in recent U.S. history, to what many refer to as a recession in just a few short months, with increasing

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energy costs, declining consumer confidence, and job layoffs at major corporations across the country. With recent events at the World Trade Center, and expanding conflict in the Middle East, it is difficult to determine what continued impact these changes will have on consumer confidence and the domestic economy or whether the Federal Reserve will continue to adjust interest rates in an effort to control the economy. It is likely that the business environment in California will continue to be influenced by these domestic as well as global events, although the overall economy of California has generally improved over the past several years. San Francisco, the Silicon Valley, and adjacent areas continue to feel the effect of the high-tech decline as occupancy rates drop, along with rental rates of available commercial office space. Occupancy rates for commercial real estate in other parts of the state may also suffer as a result of the drag on the economy. The local economy has been impacted to some degree over the past several years by such things as decreased exports and adverse weather patterns, which has increased worries about the future economic trends in the state. Local unemployment rates, as well as foreclosures in Fresno and Madera counties have increased during the past several years and persist to the current time. Despite the Central Valley's traditionally high unemployment, it is anticipated that the Central San Joaquin Valley will continue to grow and diversify as property and housing costs remain reasonable relative to other areas of the state, although this growth may begin to slow as the Federal Reserve seeks to control what it perceives as a potential recession in the economy. Management recognizes increased risk of loss due to the Company's exposure from local and worldwide economic conditions, as well as soft real estate markets, and takes these factors into consideration when analyzing the adequacy of the allowance for credit losses.

The following table provides a summary of the Company's allowance for possible credit losses, provisions made to that allowance, and charge-off and recovery activity affecting the allowance for the periods indicated.

Table 6. Allowance for Credit Losses - Summary of Activity (unaudited)

(In thousands)	March 31, 2002	March 31, 2001
Total loans outstanding at end of period before Deducting allowances for credit losses	$339,582	$275,578
Average net loans outstanding during period	336,801	267,705
Balance of allowance at beginning of period	4,457	3,773
Loans charged off:		
Real estate	0	0
Commercial and industrial	(58)	(398)
Installment and other	(9)	0
Total loans charged off	(67)	(398)
Recoveries of loans previously charged off:		
Real estate	0	0
Commercial and industrial	14	7
Installment and other	0	0
Total loan recoveries	14	7
Net loans charged off	(53)	(391)
Provision charged to operating expense	620	375
Balance of allowance for credit losses at end of period	$5,024	$3,757
Net loan charge-offs to total average loans (annualized)	0.06%	0.59%
Net loan charge-offs to loans at end of period (annualized)	0.06%	0.58%
Allowance for credit losses to total loans at end of period	1.48%	1.36%
Net loan charge-offs to allowance for credit losses (annualized)	4.28%	42.21%
Net loan charge-offs to provision for credit losses (annualized)	8.55%	104.27%

Management believes that the 1.48% credit loss allowance at March 31, 2002 is adequate to absorb known and inherent risks in the loan portfolio. No assurance can be given, however, that the economic conditions which may adversely affect the Company's service areas or other circumstances will not be reflected in increased losses in the loan portfolio.

It is the Company's policy to discontinue the accrual of interest income on loans for which reasonable doubt exists with respect to the timely collectability of interest or principal due to the ability of the borrower to comply with the terms of the loan agreement. Such loans are placed on nonaccrual status whenever the payment of principal or interest is 90 days past due or earlier when the conditions warrant, and interest collected is thereafter credited to principal to the extent necessary to eliminate doubt as to the collectability of the net carrying amount of the loan. Management may grant exceptions to this policy if the loans are well secured and in the process of collection.

Table 7. Nonperforming Assets

(In thousands)	March 31, 2002	December 31, 2001
Nonaccrual Loans (1)	$7,343	$13,019
Restructured Loans	0	0
Total nonperforming loans	7,343	13,019
Other real estate owned	10,165	5,390
Total nonperforming assets	$17,508	$18,409

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Loans past due 90 days or more, still accruing	$848	$0
Nonperforming loans to total gross loans	2.16%	3.87%
Nonperforming assets to total gross loans	5.15%	5.47%

(1) Included in nonaccrual loans at March 31, 2002 and December 31, 2001, are restructured loans totaling $33,000 and $37,600, respectively.

Loans past due more than 30 days are receiving increased management attention and are monitored for increased risk. The Company continues to move past due loans to nonaccrual status in its ongoing effort to recognize loan problems at an earlier point in time when they may be dealt with more effectively. As impaired loans, nonaccrual and restructured loans are reviewed for specific reserve allocations and the allowance for credit losses is adjusted accordingly.

Except for the loans included in the above table, there were no loans at March 31, 2002 where the known credit problems of a borrower caused the Company to have serious doubts as to the ability of such borrower to comply with the present loan repayment terms and which would result in such loan being included as a nonaccrual, past due or restructured loan at some future date.

Liquidity and Asset/Liability Management

The primary function of asset/liability management is to provide adequate liquidity and maintain an appropriate balance between interest-sensitive assets and interest-sensitive liabilities.

Liquidity

Liquidity management may be described as the ability to maintain sufficient cash flows to fulfill financial obligations, including loan funding commitments and customer deposit withdrawals, without straining the Company' s equity structure. To maintain an adequate liquidity position, the Company relies on, in addition to cash and cash equivalents, cash inflows from deposits and short-term borrowings, repayments of principal on loans and investments, and interest income received. The Company's principal cash outflows are for loan origination, purchases of investment securities, depositor withdrawals and payment of operating expenses.

The Company continues to emphasize liability management as part of its overall asset/liability strategy. Through the discretionary acquisition of short term borrowings, the Company has been able to provide liquidity to fund asset growth while, at the same time, better utilizing its capital resources, and better controlling interest rate risk. The borrowings are generally short-term and more closely match the repricing characteristics of floating rate loans which comprise approximately 65.4% of the Company' s loan portfolio at March 31, 2002. This does not preclude the Company from selling assets such as investment securities to fund liquidity needs but, with favorable borrowing rates, the Company has maintained a positive yield spread between borrowed liabilities and the assets which those liabilities fund. If, at some time, rate spreads become unfavorable, the Company has the ability to utilize an asset management approach and, either control asset growth or, fund further growth with maturities or sales of investment securities.

The Company's liquid asset base which generally consists of cash and due from banks, federal funds sold, securities purchased under agreements to resell ("reverse repos") and investment securities, is maintained at a level deemed sufficient to provide the cash outlay necessary to fund loan growth as well as any customer deposit runoff that may occur. Within this framework is the objective of maximizing the yield on earning assets. This is generally achieved by maintaining a high percentage of earning assets in loans, which historically have represented the Company's highest yielding asset. At March 31, 2002, the Bank had 70.8% of total assets in the loan portfolio and a loan to deposit ratio of 88.9%. Liquid assets at March 31, 2002 include cash and cash equivalents totaling $30.0 million as compared to $29.3 million at December 31, 2001. Other sources of liquidity include collateralized and uncollateralized lines of credit from other banks, the Federal Home Loan Bank, and from the Federal Reserve Bank totaling $188.1 million at March 31, 2002.

The liquidity of the parent company, United Security Bancshares, is primarily dependent on the payment of cash dividends by its subsidiary, United Security Bank, subject to limitations imposed by the Financial Code of the State of California. During 2002, total dividends paid by the Bank to the parent company totaled $1.950 million dollars. As a bank holding company newly formed under the Bank Holding Act of 1956, United Security Bancshares is to provide a source of financial strength for its subsidiary bank(s). To help provide financial strength, United Security Bancshares' trust subsidiary, United Security Bancshares Capital Trust I, recently completed a $15 million offering in Trust Preferred Securities during July 2001, the proceeds of which were used to purchase Junior Subordinated Debentures of the Company. Of the $14.5 million in net proceeds received by the Company, $13.7 million was used to enhance the liquidity and capital positions of the Bank.

Interest Rate Sensitivity and Market Risk

An interest rate-sensitive asset or liability is one that, within a defined time period, either matures or is subject to interest rate adjustments as market rates of interest change. Interest rate sensitivity is the measure of the volatility of earnings from movements in market rates of interest, which is generally reflected in interest rate spread. As interest rates change in the market place, yields earned on assets do not necessarily move in tandem with interest rates paid on liabilities. Interest rate sensitivity is related to liquidity in that each is affected by maturing assets and sources of funds. Interest rate sensitivity is also affected by assets and liabilities with interest rates that are subject to change prior to maturity.

The object of interest rate sensitivity management is to minimize the impact on earnings from interest rate changes in the marketplace. In recent years, deregulation, causing liabilities to become more interest rate sensitive, combined with interest rate volatility in the capital markets, has placed additional emphasis on this principal. When management decides to maintain repricing imbalances, it usually does so on the basis of a well- conceived strategy designed to ensure that the risk is not excessive and that liquidity is properly maintained. The Company's interest rate risk management is the responsibility of the Asset/Liability Management Committee (ALCO) which reports to the Board of Directors on a periodic basis, pursuant to established operating policies and procedures.

The Company's asset/liability profile is not complex. The Company does not currently engage in trading activities or use derivatives to control interest rate risk, although it has the ability to do so if deemed necessary by ALCO and approved by the Board of Directors. From the "Gap" report below, the Company is apparently subject to interest rate risk to the extent that its liabilities have the potential to reprice more quickly than its assets within the next year. At March 31, 2002, the Company had a cumulative 12 month Gap of $-43.1 million or -10.3% of total earning assets. Management believes the Gap analysis shown below is not entirely indicative of the Company' s actual interest rate sensitivity, because certain interest-sensitive liabilities would not reprice to the same degree as interest-sensitive assets. For example, if the prime rate were to change by 50 basis points, the floating rate loans included in the $210.3 million immediately adjustable category would change by the full 50 basis points. Interest bearing checking and savings accounts which are also included in the immediately adjustable column probably would move only a portion of the 50 basis point rate change and, in fact, might not even move at all. In addition, many of the floating rate time deposits are at their floors, or have repricing rates below their current floors, which means that they might act as fixed-rate instruments in either a rising or a declining rate environment (see below for a discussion of the Bank' s floating rate time deposits). The effects of market value risk have been mitigated to some degree by the makeup of the Bank's balance sheet. Loans are generally short-term or are floating-rate instruments. At March 31, 2002, $266.6 million or 80.1% of the loan portfolio matures or reprices within one year, and only 3.9% of the portfolio matures or reprices in more than 5 years. Total investment securities including call options and prepayment assumptions, have a duration of approximately 3.5 years. Nearly $330.7 million or 91.1% of interest-bearing deposit liabilities mature or can be repriced within the next 12 months, even though the rate elasticity of deposits with no defined maturities may not necessarily be the same as interest-earning assets.

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Since May of 1994, the Bank has offered a two-year floating rate certificate of deposit product to its customers which adjusts with changes in the Prime Rate, but which has an interest rate floor below which the rate paid cannot drop. The current rates below which the rates on this product cannot drop range from 1.50% to 6.50%, with approximately $14.6 million or 65.3% of those at a 6.50% floor. With the significant decrease in market rates of interest during the last 15 months, all $22.4 million of the floating-rate CD' s are at their floors making them fixed-rate instruments in a declining rate environment. In addition, because all of the CD' s repricing rates are below their current floors, they behave as fixed rate instruments even in a rising rate environment. In fact, $21.5 million or 96.0% of them would remain fixed rate instruments even if the prime rate were to increase 200 BP or less, $19.9 million or 89.1% would remain fixed rate instruments even if the prime rate were to increase 300 BP or less, and $17.3 million or 77.5% of them would remain fixed rate instruments even if the prime rate were to increase 400 BP or less. Of the $19.9 million in the two-year floating rate certificates of deposit which would behave as fixed rate instruments if rates were to increase or decrease 300 basis points, approximately $12.8 million matures in between six and twelve months and, approximately $691,000 mature in longer than one year. This $19.9 million in two-year floating rate certificates of deposit has been treated as fixed-rate instruments for the purpose of the following Gap report

Interest rate risk can be measured through various methods including Gap, duration and market value analysis as well as income simulation models. The Company employs each of these methods and refines these processes to make the most accurate measurements possible. The information provided by these calculations is the basis for management decisions in managing interest rate risk.

The following table sets forth the Company's Gap, or estimated interest rate sensitivity profile based on ending balances as of March 31, 2002, representing the interval of time before earning assets and interest-bearing liabilities may respond to changes in market rates of interest. Assets and liabilities are categorized by remaining interest rate maturities rather than by principal maturities of obligations. $19.9 million in two-year, floating rate time deposits which would behave as fixed rate instruments if rates were to increase or decrease 300 basis points, and have therefore been treated as fixed rate instruments for purposes of this Gap report.

Table 8. Maturities and Interest Rate Sensitivity
(Unaudited)

	March 31, 2002					
(In thousands)	Immediately	Next Day But Within Three Months	After Three Months Within 12 Months	After One Year But Within Five Years	After Five Years	Total
Interest Rate Sensitivity Gap:						
Loans (1)	$210,332	$28,937	$27,358	$53,077	$13,109	$332,813
Investment securities		10,180	81	41,482	22,995	74,738
Federal funds sold and reverse repos	10,725					10,725
Total earning assets	$221,057	$39,117	$27,439	$94,559	$36,104	$418,276
Interest-bearing transaction accounts	83,822					83,822
Savings accounts	19,072					19,072
Time deposits (2)	3,248	86,357	95,948	23,124	11	208,688
Federal funds purchased/other borrowings	868	26,400		9,000		36,268
Trust Preferred securities			15,000			15,000
Total interest-bearing liabiities	$107,010	$112,757	$110,948	$32,124	$11	$362,850
Interest rate sensitivity gap	$114,047	$(73,640)	$(83,509)	$62,435	$36,093	$55,426
Cumulative gap	$114,047	$40,407	$(43,102)	$19,333	$55,426	
Cumulative gap percentage to total earning assets	27.3%	9.7%	-10.3%	4.6%	13.3%	

(1) Loan balance does not include nonaccrual loans of $7.343 million.
(2) See above for discussion of the impact of floating rate CD's.

The Company utilizes a vendor-purchased simulation model to analyze net interest income sensitivity to movements in interest rates. The simulation model projects net interest income based on both a 100 and 200 basis point rise and a 100 and 200 basis point fall in interest rates ramped over a twelve month period, with net interest impacts projected out as far as twenty four months. The model is based on the actual maturity and repricing characteristics of the Company's interest-sensitive assets and liabilities. The model incorporates assumptions regarding the impact of changing interest rates on the prepayment of certain assets and liabilities. Projected net interest income is calculated assuming customers will reinvest maturing deposit accounts and the Company will originate a certain amount of new loans. The balance sheet growth assumptions utilized correspond closely to the Company's strategic growth plans and annual budget. Excess cash is invested in overnight funds or other short-term investments such as U.S. Treasuries. Cash shortfalls are covered through additional borrowing of overnight or short-term funds. The Board of Directors has adopted an interest rate risk policy which establishes maximum decreases in net interest income of 12% and 15% in the event of a 100 BP and 200 BP increase or decrease in market interest rates over a twelve month period. Based on the information and assumptions utilized in the simulation model at March 31, 2002, the resultant projected impact on net interest income falls within policy limits set by the Board of Directors for all rate scenarios run.

The Company also utilizes the same vendor-purchased simulation model to project the impact of changes in interest rates on the underlying market value of all the Company's assets, liabilities, and off-balance sheet accounts under alternative interest rate scenarios. The resultant net value, as impacted under each projected interest rate scenario, is referred to as the market value of equity ("MV of Equity"). This technique captures the interest rate risk of the Company's business mix across all maturities. The market analysis is performed using an immediate rate shock of 200 basis points up and down calculating the present value of expected cash flows under each rate environment at applicable discount rates. The market value of loans is calculated by discounting the expected future cash flows over either the term to maturity for fixed rate loans or scheduled repricing for floating rate loans using the current rate at which similar loans would be made to borrowers with similar credit ratings. The market value of investment securities is based on quoted market prices obtained from reliable independent brokers.

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The market value of time deposits is calculated by discounting the expected cash flows using current rates for similar instruments of comparable maturities. The market value of deposits with no defined maturites, including interest-bearing checking, money market and savings accounts is calculated by discounting the expected cash flows at a rate equal to the difference between the cost of these deposits and the alternate use of the funds, federal funds in this case. Assumed maturities for these deposits are estimated using decay analysis and are generally assumed to have implied maturities of less than five years. For noninterest sensitive assets and liabilities, the market value is equal to their carrying value amounts at the reporting date. The Company's interest rate risk policy establishes maximum decreases in the Company's market value of equity of 12% and 15% in the event of an immediate and sustained 100 BP and 200 BP increase or decrease in market interest rates. As shown in the table below, the percentage changes in the net market value of the Company's equity are within policy limits for both rising and falling rate scenarios.

The following sets forth the analysis of the Company's market value risk inherent in its interest-sensitive financial instruments as they relate to the entire balance sheet at March 31, 2002 and December 31, 2001 ($ in thousands). Fair value estimates are subjective in nature and involve uncertainties and significant judgment and, therefore, cannot be determined with absolute precision. Assumptions have been made as to the appropriate discount rates, prepayment speeds, expected cash flows and other variables. Changes in these assumptions significantly affect the estimates and as such, the obtained fair value may not be indicative of the value negotiated in the actual sale or liquidation of such financial instruments, nor comparable to that reported by other financial institutions. In addition, fair value estimates are based on existing financial instruments without attempting to estimate future business.

	March 31, 2002			December 31,2001		
Change in Rates	Estimated MV of Equity	Change in MV of Equity $	Change in MV of Equity $	Estimated MV of Equity	Change in MV of Equity $	Change in MV of Equity %
+ 200 BP	$36,723	($1,024)	-2.17%	$33,884	($1,768)	-4.96%
+ 100 BP	37,528	(169)	-0.45%	35,206	(446)	-1.25%
0 BP	37,747	0	0.00%	35,652	0	0.00%
- 100 BP	37,031	(716)	-1.90%	35,478	(174)	-0.49%
- 200 BP	35,785	(1,963)	-5.20%	34,717	(935)	-2.62%

Regulatory Matters

Capital Adequacy

Capital adequacy for bank holding companies and their subsidiary banks has become increasingly important in recent years. Continued deregulation of the banking industry since the 1980's has resulted in, among other things, a broadening of business activities beyond that of traditional banking products and services. Because of this volatility within the banking and financial services industry, regulatory agencies have increased their focus upon ensuring that banking institutions meet certain capital requirements as a means of protecting depositors and investors against such volatility.

During July 2001, the Company completed an offering of Trust Preferred Securities in an aggregate amount of $15.0 million to enhance its regulatory base, while providing additional liquidity. Subsequent to the completion of the offering, the Company contributed $13.7 million of that offering to the Bank to enhance its capital position. Under applicable regulatory guidelines, the Trust Preferred Securities qualify as Tier I capital up to a maximum of 25% of Tier I capital. Any additional portion will qualify as Tier 2 capital. As shareholders' equity increases the amount of Tier I capital that can be comprised of Trust Preferred Securities will increase.

The Board of Governors of the Federal Reserve System ("Board of Governors") has adopted regulations requiring insured institutions to maintain a minimum leverage ratio of Tier 1 capital (the sum of common stockholders' equity, noncumulative perpetual preferred stock and minority interests in consolidated subsidiaries, minus intangible assets, identified losses and investments in certain subsidiaries, plus unrealized losses or minus unrealized gains on available for sale securities) to total assets. Institutions which have received the highest composite regulatory rating and which are not experiencing or anticipating significant growth are required to maintain a minimum leverage capital ratio of 3% Tier 1 capital to total assets. All other institutions are required to maintain a minimum leverage capital ratio of at least 100 to 200 basis points above the 3% minimum requirement.

The Board of Governors has also adopted a statement of policy, supplementing its leverage capital ratio requirements, which provides definitions of qualifying total capital (consisting of Tier 1 capital and Tier 2 supplementary capital, including the allowance for loan losses up to a maximum of 1.25% of risk-weighted assets) and sets forth minimum risk-based capital ratios of capital to risk-weighted assets. Insured institutions are required to maintain a ratio of qualifying total capital to risk weighted assets of 8%, at least one-half (4%) of which must be in the form of Tier 1 capital.

The following table sets forth the Company' s and the Bank's actual capital positions at March 31, 2002 and the minimum capital requirements for both under the regulatory guidelines discussed above:

Table 9. Capital Ratios

	Company Actual Capital Ratios	Bank Actual Capital Ratios	Minimum Capital Ratios
Total risk-based capital ratio	13.17%	12.57%	8.00%
Tier 1 capital to risk-weighted assets	11.03%	11.34%	4.00%
Leverage ratio	10.06%	10.29%	3.00%

As is indicated by the above table, the Company and the Bank exceeded all applicable regulatory capital guidelines at March 31, 2002. Management believes that, under the current regulations, the both will continue to meet their minimum capital requirements in the foreseeable future.

Dividends

Dividends paid to shareholders by the Company are subject to restrictions set forth in the California General Corporation Law. The California General Corporation Law provides that a corporation may make a distribution to its shareholders if retained earnings immediately prior to the dividend payout are at least equal the amount of the proposed distribution. The primary source of funds with which dividends will be paid to shareholders will come from cash dividends received by the Company from the Bank. During 2002, the Company has received $1.950 million in cash dividends from the Bank, from which the Company declared or paid $1.332 million in dividends to shareholders.

The Bank as a state-chartered bank is subject to dividend restrictions set forth in California state banking law, and administered by the California Commissioner of Financial Institutions ("Commissioner"). Under such restrictions, the Bank may not pay cash dividends in an amount which exceeds the lesser of the retained earnings of the Bank or the Bank' s net income for the last three fiscal years (less the amount of distributions to shareholders during that period of time). If the above test is not met, cash dividends may only be paid with the prior approval of the Commissioner, in an amount not exceeding the Bank' s net income for its last fiscal year or the amount of its net income for the current fiscal year. This is not the case with the Bank. Year-to-date dividends of $1.950 million paid to the Company through March 31, 2002 were well within the maximum allowed under those regulatory guidelines, without approval of the Commissioner.

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Reserve Balances

The Bank is required to maintain average reserve balances with the Federal Reserve Bank. At March 31, 2002 the Bank's qualifying balance with the Federal Reserve was approximately $6.0 million, consisting of vault cash and balances.

PART II. OTHER INFORMATION

Item 1. Not applicable

Item 2. Not applicable

Item 3. Not applicable

Item 4. Not applicable

Item 5. Not applicable

Item 6. Exhibits and Reports on Form 8-K:

(a) Exhibits: None
(b) Reports on Form 8-K: None

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized,

United Security Bancshares

Date: May 10, 2002

/S/ Dennis R.Woods
Dennis R.Woods
Chairman of the Board and
President

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/S/ Kenneth L. Donahue
Kenneth L. Donahue
Senior Vice President and
Chief Financial Officer

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