Company Update
Estimates Change
Price Target Change

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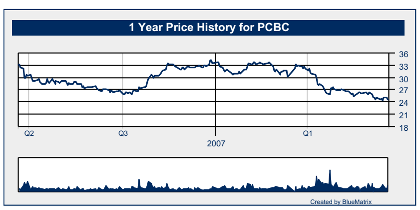
Market Price:	$24.68
Target Price:	$32.00
Proj. Total Return:	33.2%
52 Wk. Range	$34.64-$24.24
Yield:	3.57%
Shr.O/S-Diluted (mm):	47.0
Insider Ownership:	9.5%
Market Cap:	$1.2bn
Book Value/Share:	$14.24
Tangible Book Value:	$10.98
Tangible Common Equity/Assets:	7.1%



Industry Opinion:
The Western regional operating environment appears to be improving, and loan growth and credit quality are positive. Higher rates should support margin expansion for banks with conservative balance sheets, but squeeze thrift margins. Economic expansion appears robust in S. Cal. and Hawaii, while N. Cal. and Oregon/Washington remain sluggish.

Company Description: Pacific Capital is a Santa Barbara, CA-based community bank with $7.4 billion in assets. The company also operates a tax-refund loan business, which accounts for approximately one-third to one-half of total earnings.

Banks: Regional

June 22, 2007

Pacific Capital Bancorp
(PCBC, $24.68, Outperform, Target: $32.00)

PCBC: Right-sizing the Business: Selling Leasing and Auto Finance

Event-- PCBC is selling the auto finance and equipment leasing portfolios. New EPS estimates are $2.24 for 2007 and $2.55 for 2008; for the core bank, new EPS estimates are $1.49 and $1.66 for 2007 and 2008. We forecast an improvement to earnings from lower normalized NCOs and the higher capital position provides PCBC with greater buy-back flexibility. We think the shares are attractively valued, and we reiterate our Outperform rating.

	Earnings Per Share			P/E		%Chg.	L/Term
Year End Dec	**2006A**	**2007E**	**2008E**	**07E**	**08E**	**08/07**	**Grth. Rate**
KBW (Curr.)	$2.01	$2.24	$2.55	11.0x	9.7x	13.84%	11.6%
KBW (Prev.)	$2.01	$2.22	$2.53	12.3x	10.8x	13.96%	11.1%
FC (Cons.)	—	$2.08	$2.29	11.9x	10.8x	10.10%	8.2%

	2006	**2007**	**2008**
Efficiency Ratio	72.2%	60.9%	61.5%
NCOs/Avg. Loans	0.37%	0.40%	0.20%
NIM	4.19%	4.18%	4.24%
Fees/Total Rev.	17.0%	20.2%	20.0%
ROA	0.61%	1.02%	1.07%
ROE	7.0%	10.5%	11.3%

Quarterly Earnings Per Share

	1Q	**2Q**	**3Q**	**4Q**	**YR**
2006A	$1.43	$0.24	$0.36	$(0.02)	$2.01
2007E	$1.23	$0.33e	$0.33e	$0.34e	$2.24
2008E	—	—	—	—	$2.55

- PCBC sold its indirect auto finance book and will sell its commercial equipment lease business on June 22. We view both actions positively, as they demonstrate the management's commitment to simplifying the business mix. The two books along with the discontinued Holiday Loans accounted for the bulk of the core bank's loan losses in 2006; we expect recurring losses to decline meaningfully beginning in 3Q. Finally, we note the earnings contribution from the two businesses was negligible at best, and perhaps they even generated small losses in 2006.
- Adjusted EPS estimates are $2.24 for 2007 and $2.55 for 2008, from $2.22 and $2.53, respectively. At the core bank level, new EPS estimates are $1.49 and $1.66 for 2007 and 2008. 2Q07 EPS estimates are $0.33 for the consolidated company and $0.36 for the core bank. We forecast an improvement to earnings from lower normalized NCOs and the higher capital position provides PCBC with greater buy-back flexibility.
- We lowered our price target to $32 from $34, reflecting an increased discount rate due to the ongoing difficult operating environment for banks as well as some uncertainty created as a result of recent management changes at PCBC.
- We view PCBC as one of the few potential earnings turnaround stories in our coverage universe. Following disappointing results in 1Q07, PCBC shares have been weak and are down 27% year-to-date. At 11.0x our new 2007E estimate and 9.7x 2008E EPS we think the shares are attractively valued. As a result, we reiterate our Outperform rating.

Risk
Risk factors that may affect our price target include business and legal risks from the company's RAL/RT program and the integration of recent acquisitions.

PCBC: Right-sizing the Business
Selling Commercial Equipment Leasing and Indirect Auto Finance Businesses

Pacific Capital (PCBC) announced after the close on Wednesday that the company has entered into an agreement to sell its commercial equipment lease business (to close on June 22) and that the previously announced sale of the indirect auto finance business was completed. The sale of the commercial lease business was a new development but not unexpected. We view both actions positively, as they demonstrate the current management team's commitment to simplifying the business mix of the company. In addition, the two portfolios along with the discontinued Holiday Loan product accounted for the bulk of the core bank's loan losses in 2006. As a result, we expect recurring losses to decline meaningfully beginning in the third quarter. Finally, we note the earnings contribution from the two businesses was negligible at best, and perhaps they even generated small losses in 2006.

We adjusted our earnings model for these actions, pushing our EPS estimates up to $2.24 for FY2007 and $2.55 for FY2008, from $2.22 and $2.53, respectively. At the core bank level, our new EPS estimates are $1.49 and $1.66 for 2007 and 2008, respectively. Our second quarter 2007 EPS estimates are $0.33 for the consolidated company and $0.36 for the core bank.

Our estimate changes reflect the improvement to PCBC's credit profile as well as higher capital levels, offset in part by the lost net interest income from the portfolio sales. The disposition of the auto loan portfolio was implicitly built into our previous estimates, though we had expected the transaction to be completed in the third quarter.

We forecast an improvement to earnings from lower normalized NCOs (0.12% in 4Q07 versus 0.40% prior to the disposition). The higher capital position (TCE ratio of 7.62% at the end of 2007 versus 7.07% previously) provides PCBC with greater buy-back flexibility.

We are lowering our DCF-based price target for PCBC shares to $32 from $34 previously. The price target change reflects an increase in our assumed discount rate due to the ongoing difficult operating environment for banks (please see our note from June 12 that summarizes trends observed on our West Coast Bank Field Trip) as well as some uncertainty created as a result of recent management changes at PCBC. The increase to the discount rate offsets the increase to earnings estimates and the quarterly roll-forward of our valuation model.

We are encouraged by PCBC's moves to rationalize the business. We view Pacific

Capital as one of the few potential earnings turnaround stories in our coverage universe, which we consider as an attractive attribute in a challenging revenue growth environment for banks. Following an earnings disappointment in 1Q07, PCBC shares have been weak and are down 27% year-to-date. At 11.0x our new 2007E operating EPS estimate and 9.7x 2008E EPS (based on June 21 close) we think the shares are attractively valued. Furthermore, as we have noted previously the trends at the core bank have shown signs of improvement, particularly on the cost side of the equation. As a result, we continue to recommend the shares and reiterate our Outperform rating.

Commercial leasing. PCBC is selling its Commercial Equipment Leasing and Financing business (including the assets and origination platform) to LEAF Funding, Inc. PCBC will receive $280 million from the sale of the business, which had net assets of approximately $267 million. PCBC expects to record a net pretax gain of $20 million in the second quarter (27 cents after tax) on the sale. The loan loss reserve of approximately $14.6 million as of 3/31/07 (based on management indication) associated with the portfolio will be removed from PCBC's balance sheet. We estimate the leasing portfolio accounted for $8.3 million of net charge-offs in 2006, or 54% of losses in the core bank (ex. tax-related RAL/RT and holiday loans). For 1Q07, we estimate the contribution to losses at 55%. The high loss rate on the portfolio likely resulted from a period of rapid growth between 2003 and 2006, with the portfolio doubling in size.

Auto finance portfolio. Consistent with previous disclosures, PCBC sold its auto loans with a net book value of $222 million. The company will record a small loss of $900,000 ($0.02 pre-tax/$0.01 after-tax per share) on the sale of the portfolio. We estimate the indirect auto had losses of $3.0 million in 2006, or 20% of charge-offs in the core bank.

Implications for credit metrics. Netting out the $14.6 million of estimated reserves on the commercial lease portfolio and the remaining allocated reserves of $3.1 million on nonperforming auto loans (assuming they are utilized to cover losses) from 1Q07 EOP numbers, we calculate a remaining allowance of $37.9 million on $5,134 million of non-RAL loans, leaving a skinny reserve ratio of 0.74% million. However, we also note that net charge-offs excluding the discontinued businesses (including holiday loans) would have been approximately $4.1 million or only 9 basis points of estimated average loans in 2006 (compared to 30 bps excluding only RAL/RT and holiday loans), leaving implied reserve coverage at 9 years of losses.

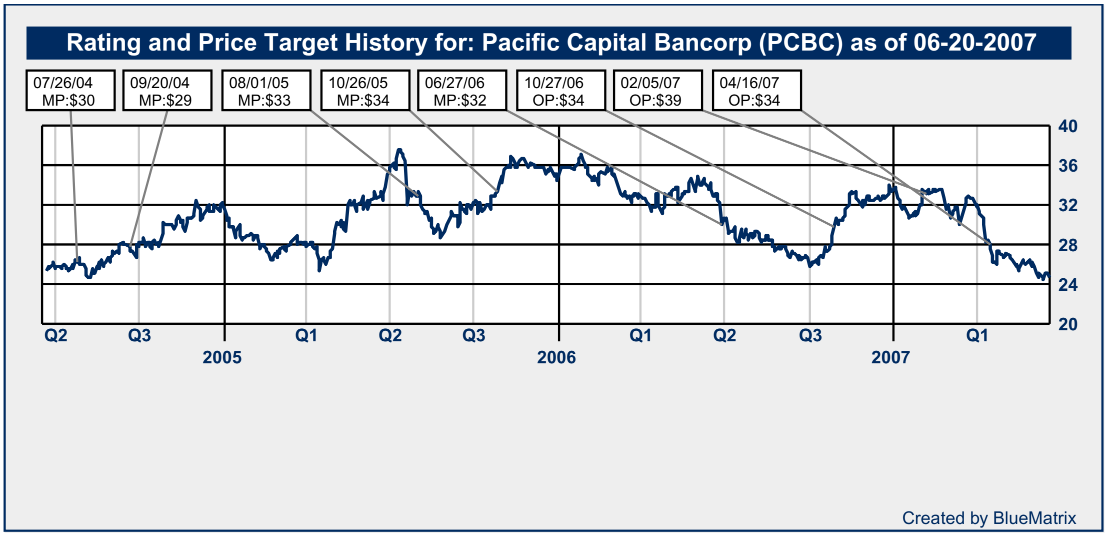
Capital. We calculate an improvement in the pro forma tangible common equity to asset ratio at 3/31/07 to 7.78% from 7.09%. We assume the company reduces the size of the balance sheet by paying down borrowings with the cash received from the sales.

Exhibit 1: PCBC Pro Forma Credit Metrics for Discontinued Businesses

PCBC Pro Forma Credit Metrics	2005A	2006A	2007Q1
Gross leasing portfolio *	287.50	297.53	282.86
Reserves on leasing portfolio**	11.77	14.68	14.56
Reserves to loans	4.1%	4.9%	5.1%
Net charge-offs - leasing	6.24	8.25	3.21
Annualized NCO / Average loans - leasing	2.39%	2.82%	4.43%
Calculated provision - leasing	7.98	11.16	3.09
PCBC net charge-offs ex RAL/RT	15.73	18.96	11.86
Discontinued:			
NCO for holiday loans (1Q only)	2.60	3.60	6.00
NCO for indirect auto loans (est.)***	3.62	3.02	1.75
NCOs for leasing	**6.24**	**8.25**	**3.21**
PCBC NCO ex discontinued items	3.26	4.09	0.89
Reduction to NCOs	79%	78%	92%
Auto / PCBC NCO ex RAL/RT & holiday	28%	20%	30%
Leasing / PCBC NCO ex RAL/RT & holiday	48%	54%	55%
PCBC provision ex RAL/RT	15.66	28.03	7.12
Discontinued:			
Provision for holiday loans (est. - 4Q only)	2.80	4.70	-
Provision for indirect auto loans (est = NCO)	3.62	3.02	1.75
Provision for leasing	**7.98**	**11.16**	**3.09**
PCBC provision ex discontinued items	1.26	9.15	2.27
Reduction to provision	92%	67%	68%
Leasing / PCBC provision ex RAL/RT & holiday	**62%**	**48%**	**43%**

* We estimate only a nominal amount of leases are not related to the Commercial Leasing Business.
** Per PCBC, 1Q07 reserves associated with indirect auto and leasing total $22 million.
*** We estimate indirect auto NCOs based on reg. data: consumer NCO less holiday and RAL/RT.

Source: Company reports, FDIC, and KBW Research.



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Outperform [BUY]	119	31.73	28	23.53
Market Perform [HOLD]	220	58.67	15	6.82
Underperform [SELL]	16	4.27	0	0.00
Restricted [RES]	0	0.00	0	0.00
Suspended [SP]	20	5.33	4	20.00

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KBW either expects to receive or intends to seek compensation for investment banking services from Pacific Capital Bancorp during the next three months.

KBW currently makes a market in this security PCBC.

Please refer to the following website for price chart detail and additional disclosure information: http://www.kbw.com/research/disclosures.html

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