

PUBLIC DISCLOSURE

April 19, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Valencia Bank and Trust
1157255
23620 Lyons Avenue
Santa Clarita, California 91321**

**Federal Reserve Bank of San Francisco
101 Market Street
San Francisco, California 94105**

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

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GENERAL INFORMATION

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

*This document is an evaluation of the CRA performance for **Valencia Bank and Trust** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of **April 19, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

Institution's CRA Rating: This institution is rated satisfactory.

Valencia Bank and Trust's satisfactory performance is based on its record of addressing the credit needs of its assessment area. Lending levels are consistent with the bank's size, resources, and capabilities. In addition, an adequate percentage of loans were made inside the bank's assessment area. While its lending to businesses of different sizes compares reasonably to community demographics, the bank's has shown a very good responsiveness to the credit needs of low- and moderate-income individuals, primarily through the extension of auto loans. All these factors contributed to the bank's overall satisfactory rating. Because all but one of the census tracts in the bank's assessment area is upper-income, a meaningful geographic distribution analysis could not be performed.

PERFORMANCE CONTEXT

Description of Institution

Valencia Bank and Trust is headquartered in Santa Clarita, California, approximately 20 miles north of Los Angeles in an area commonly known as the Santa Clarita Valley. In addition to its main office, the bank has two other full-service branches located in the cities of Valencia and Canyon Country. In addition, the bank has an ATM/Merchant Deposit Facility located at the Valencia Town Center in Valencia.

The bank has experienced strong growth in the past two years with total assets increasing by 43 percent to \$137.5 million as of December 31, 1998. At 54 percent of total assets, the bank's loan portfolio as of December 31, 1998 reveals the following distribution:

Loan Type	Percent of Total Loans (\$)
Commercial/Industrial, and Non-Farm Non-Residential Real Estate	58%
Secured by 1-4 Family Real Estate	7%
Consumer Loans	29%
Credit Cards	1%
Construction	5%
Total	100%

While the above loan portfolio distribution indicates that credit is extended for both business- and consumer-purposes, the major concentration is in business-purpose credit. The bank's stated business strategy is to extend business-purpose credit. The consumer credit noted above is primarily the result of the bank providing auto loans through relationships established with local dealerships. Accordingly, the bank's direct lending is primarily in the form of commercial credit, while its indirect lending is primarily consumer purpose.

Valencia Bank and Trust faces strong competition from local branches of statewide financial institutions located throughout its assessment area offering similar products and services. There are, however, no legal or financial impediments that would prevent the bank from meeting the community's credit needs consistent with its size, resources, financial capacity, and local economic conditions. Valencia Bank and Trust's CRA performance was rated satisfactory at the previous examination conducted by the Office of the Comptroller of the Currency as of April 15, 1996.

Description of Assessment Area

The bank's assessment area consists of the Santa Clarita Valley which is located in the northern portion of Los Angeles County and comprises of the cities of Canyon Country, Newhall, Saugus, Valencia, Santa Clarita, Agua Dulce, Castaic and Val Verde. The Santa Clarita Valley is a relatively affluent area, consisting of less than one percent of the census tracts in Los Angeles County. The assessment area is comprised of 22 census tracts, 21 of which are upper-income. The remaining census tract is middle-income. Not only are there no low- or moderate-income census tracts in the assessment area, of the 40,003 families in the assessment area, only 7 percent are low-income. The remaining family distribution is 9 percent moderate-income, 18 percent middle-income, and 66 percent upper-income. The median family income for the Santa Clarita Valley is \$58,179, well above that of the county (\$39,035) and the state (\$40,559).

The Santa Clarita Valley also is stronger economically than Los Angeles County. With a 1996 unemployment rate of 2.9 percent as compared to the county's unemployment rate of 8.2 percent, and the state's 7.2 percent, the Valley has benefited from an influx of jobs from the entertainment industry. Similar to the county, the largest employment sectors in the Santa Clarita Valley are services, retail and wholesale trade, and manufacturing. As the economy rebounded, the construction industry had the largest employment growth between 1993 and 1996.¹

Data provided by Dun and Bradstreet (a firm that provides business and credit data) show that the vast majority of businesses operating within the bank's defined assessment area, 4,983 or 89.2 percent, have gross annual sales of \$1 million or less.² Similar to the distribution of census tracts, only 11 percent of these businesses are situated in middle-income areas, with 89 percent located within the upper-income geographies. The number of businesses located throughout the entire assessment area provide local financial institutions with opportunities for small business lending. According to a contact within the community, a need exists for small business financing in amounts less than \$100,000.

Even with a comparatively strong economy and higher income levels, affordable housing remains consumer credit need throughout Los Angeles County.

¹ Regional Economic Information System (REIS)

² These are considered "small businesses" for purposes of the CRA regulation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of Examination

Valencia Bank and Trust's performance under the Community Reinvestment Act was evaluated using three of the five performance criteria from the small bank CRA examination procedures. The bank's performance was evaluated based upon its loan volume in comparison to deposits (Loan-to-Deposit Ratio), its level of lending inside and outside its defined assessment area (Lending in Assessment Area), and the distribution of lending to businesses of different sizes and borrowers of different income levels (Lending by Business Revenue and Borrower Income). The bank's lending dispersion throughout the census tracts within the assessment area (Geographic Distribution of Loans) and its responsiveness to consumer complaints were not evaluated. The bank's geographic distribution of loans was not reviewed due to the lack of diversity in the income levels of the census tracts in its assessment area (21 of 22 census tracts are upper-income). Its responsiveness to consumer complaints was not evaluated because no CRA-related complaints were received since the previous examination.

To evaluate the bank's CRA performance, examiners analyzed all 127 small business loans and 402 consumer purpose loans extended from January 1, 1998 through December 31, 1998. These loans were first analyzed to determine the volume of lending within the bank's assessment area. To evaluate the bank's lending by business revenue and borrower income, examiners collected revenue and income data for a random sample of 75 small business and 126 consumer loans extended inside the bank's assessment area. By utilizing only those loans extended inside of the bank's assessment area, examiners evaluated the bank's record of meeting the credit needs of its designated community.

Loan-to-Deposit Ratio

Valencia Bank and Trust's loan-to-deposit ratio meets standards for satisfactory performance. The loan-to-deposit ratio is a quick test to determine the bank's level of lending activity in comparison to its deposits. This review is achieved by measuring the bank's net loans against its total deposits over time with the result then analyzed within the bank's performance context.

The bank's average loan-to-deposit ratio for the previous eight quarters (March 1997 through December 1998) is 57.8 percent. During the same time period, ratios for local peer banks ranged from a low of 39.4 percent to a high 79.9 percent. The bank's ratio was in the middle of the range for its peer banks, with two having lower loan-to-deposit ratios and two having higher loan-to-deposit ratios. At approximately 58 percent, this ratio indicates an ability and willingness on the part of the bank to lend.

In light of the bank's resources and capabilities, coupled with the strong competition from local branches of statewide financial institutions located throughout the assessment area, its loan-to-deposit ratio is reasonable.

Lending in Assessment Area

The bank's level of lending inside and outside of its defined assessment area meets standards for a satisfactory performance. The table below shows that, on an overall basis, a majority of loans were extended inside its assessment area.

Loan Type	Number of Loans		Dollar Amount of Loans	
	Percent Inside	Percent Outside	Percent Inside	Percent Outside
Small Business	66%	34%	61%	39%
Consumer	48%	52%	48%	52%
Total	52%	48%	57%	43%

Although a majority of the bank's total loans were extended in its assessment area, only 48 percent of consumer loans were made in the assessment area. The distribution of the bank's consumer lending is directly related to its strategies with regard to indirect auto lending. Specifically, the bank strives to extend as many indirect auto loans as possible because of their high profitability and to diversify risk through a large number of dealerships. Additionally, because the bank does not directly extend large volumes of consumer loans, its indirect auto business accounts for approximately 75 percent of its total consumer loan portfolio. However, in implementing this strategy, the bank has not created business relationships with auto dealers located outside of its assessment area to the exclusion of those located inside the assessment area. To the extent that dealerships located in the assessment area fit the bank's risk profile and are willing to conduct business with the bank, it is effectively serving all portions of the assessment area. As such, although less than a majority of consumer loans are located within the assessment area, the bank's lending patterns meet standards for a satisfactory performance.

Lending by Borrower Income and by Business Revenue

The bank's distribution of loans to businesses of different sizes and to borrowers of different income levels meets standards for a satisfactory performance.

In comparing its lending performance to the assessment area and its needs, the bank has made a reasonable amount of loans to small businesses. As previously stated, approximately 89 percent of assessment area businesses are small businesses. This figure includes all business, regardless of the length of time the business has been in operation or its level of revenues. Of the 75 small business loans for which revenue information was collected, 55 percent were extended to small businesses (those with gross annual revenues of \$1 million or less). Furthermore, 57 percent of the loans extended to small businesses were in amount of \$100,000 or less, addressing the stated credit need for loans for \$100,000 or less.

With regard to consumer lending, the bank has a more than reasonable performance of lending to low- and moderate-income individuals. The table below illustrates the high level of lending

to low- and moderate-income borrowers compared to the distribution of families in the assessment area.

Borrower Income Level	Low- Income	Moderate- Income	Middle- Income	Upper- Income
Consumer Lending	16%	21%	21%	42%
Families in Assessment Area	7%	9%	18%	66%

Geographic Distribution of Loans

The bank’s geographic distribution of lending was not evaluated because its assessment area does not have enough diversity in the income level of the census tracts to allow for a meaningful analysis. Currently, 21 of the 22 census tracts in the bank’s assessment area are upper-income with the one remaining tract being middle-income. For this reason the bank’s geographic distribution of loans was not evaluated at this examination.

Response to Complaints

The bank’s responsiveness to consumer complaints was not evaluated because no CRA-related complaints have been received since the previous examination.

Compliance with Fair Lending Laws and Regulations

Although the bank’s policies affirm its commitment to comply with fair lending laws and regulations, a violation of the substantive provisions of anti-discrimination laws and regulations was found at this examination. This violation, however, did not negatively affect the bank’s ability to extend credit within its designated assessment area and thus, did not negatively impact the bank’s overall CRA performance.

GLOSSARY OF FREQUENTLY USED TERMS

AREA MEDIAN INCOME (MEDIAN INCOME)	The median family income for the Metropolitan Statistical Area (MSA) if a person or geography is located in an MSA, or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.
ASSESSMENT AREA	A geographic area which generally consists of one or more MSAs or one or more contiguous subdivisions, such as counties, cities or towns. Assessment areas also include geographies in which the bank has its main office, its branches and its deposit taking ATMs, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans (including home mortgage loans, small business loans, small farm loans, and any other loans the bank chooses, such as those consumer loans on which the bank elects to have its performance assessed).
COMMUNITY DEVELOPMENT	<ol style="list-style-type: none">(1) Affordable housing (including multifamily rental housing) for low- or moderate-income individuals.(2) Community services targeted to low- or moderate-income individuals.(3) Activities that promote economic development by financing business or farms which have gross annual revenues of \$1 million or less or that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs.(4) Activities that revitalize or stabilize low- or moderate-income geographies.
COMMUNITY DEVELOPMENT LOAN	A loan that has as its primary purpose community development; and, except in the case of a wholesale or limited purpose bank: <ol style="list-style-type: none">(1) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan; and(2) Benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

COMMUNITY DEVELOPMENT SERVICE	A service that has as its primary purpose community development, is related to the provision of financial services, and has not been considered in the evaluation of the bank's retail banking services under CRA.
CONSUMER LOANS	Loans to one or more individuals for household, family or other personal expenditures. A consumer loan does not include a home mortgage, small business or small farm loan. Examples of consumer loans are: Motor Vehicle Loans, Credit Card Loans, Home-Equity Loans, Secured Consumer Loans and Unsecured Consumer Loans.
FAMILIES	Defined by the U.S. Bureau of Census as all persons occupying a housing unit related to the householder by birth, marriage or adoption. A single person living alone or two or more unrelated individuals occupying the same household are not considered to be a family.
GEOGRAPHIES	Census tracts or numbering area blocks delineated by the U.S. Bureau of Census in the most recent decennial census.
HOUSEHOLDS	Defined by the U.S. Bureau of Census as all persons occupying a housing unit.
HUD ADJUSTED MEDIAN INCOME	Based initially on the area median income derived from the most recent decennial census, the Department of Housing and Urban Development adjusts the figure annually for inflation.
INCOME LEVEL	Includes low-income, moderate-income, middle-income and upper-income.
LOW-INCOME	An individual income that is less than 50 percent of the HUD- adjusted median income or a census tract or block numbering area with a median family income that is less than 50% of the area median income.
MEDIAN INCOME	See Area Median Income and HUD Adjusted Median Income
METROPOLITAN STATISTICAL AREA (MSA)	An area qualifies as an MSA if it contains a city with a population of at least 50,000 or is defined by the Bureau of the Census as an urbanized area and has a population of 50,000 or more and a total metropolitan population of 100,000.

MIDDLE-INCOME	An individual income that is at least 80 percent and less than 120 percent of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is at least 80 and less than 120 percent of the area median income.
MODERATE-INCOME	An individual income that is at least 50 percent and less than 80 percent of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is at least 50 and less than 80 percent of the area median income.
QUALIFIED INVESTMENT	A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.
REAL ESTATE MORTGAGE LOAN	Defined by the Home Mortgage Disclosure Act (HMDA) as a home purchase loan, home improvement loan or the refinancings for both. A home purchase loan is any loan secured by and made for the purpose of purchasing a dwelling. A home improvement loan is for the purpose, in whole or part, of repairing, rehabilitating, remodeling, or improving a dwelling or the real property on which it is located and is classified by the financial institution as a home improvement loan.
SMALL BANK	A bank that, as of December 31 of either of the prior two calendar years, had total assets of less than \$250 million and was independent or an affiliate of a holding company that, as of December 31 of the prior two calendar years, had total banking and thrift assets of less than \$1 billion.
SMALL BUSINESS	Businesses with gross annual revenues of \$1 million or less as defined by the Community Reinvestment Act.
SMALL BUSINESS LOAN	Business purpose loans with original amounts of \$1 million or less as defined by the instructions for the Consolidated Reports of Condition and Income (CALL Report) for entry on schedule RC-C, part II "Loans to Small Businesses."
UPPER-INCOME	An individual income that is 120 percent or more of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is 120 percent or more of the area median income.