

# **PUBLIC DISCLOSURE**

October 28, 1996

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Valley Commercial Bank  
12-41-0227-0000**

**4110 Pacific Avenue  
Forest Grove, Oregon 97116**

**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.**

## GENERAL INFORMATION

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

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Valley Commercial Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of October 28, 1996. 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's overall CRA (Community Reinvestment Act) performance is rated satisfactory based upon a review of its provision of credit to its community. Evidence was found during the examination that management had taken an affirmative role in identifying and meeting the credit needs of its entire community, including moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The bank exceeded standards for one of the performance criteria evaluated. Valley Commercial Bank's quarterly average loan-to-deposit ratio was considered high when compared to peers and the stable loan demand in the assessment area. Also, the bank's exceptionally strong loan growth since the previous examination demonstrates the bank's continuing efforts to meet credit needs by increasing the volume and amount of loans extended within the community.

Lending within the assessment area was found to be satisfactory. The majority of loans by count and by dollar amount are within the bank's assessment area.

The bank's record of lending by business revenue compared favorably to local demographics, showing that loans are extended to businesses of various sizes. The bank's performance in regard to lending to "small businesses"<sup>1</sup> particularly for smaller loan amounts, demonstrates that the bank is meeting its target market of small businesses, and effectively contributes to a particular credit need mentioned by a community representative interviewed during the examination.

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<sup>1</sup>Small businesses are defined as having annual revenues of \$1 million or less.

The geographic distribution of the bank's loan products sampled, especially in moderate-income tracts, was also satisfactory. There are no low-income tracts in the bank's assessment area. Finally, the bank did not receive any written complaints about its CRA performance; thus, this criterion was not evaluated.

The following table indicates the performance level of Valley Commercial Bank with respect to each of the five performance criteria.

<b>SMALL INSTITUTION ASSESSMENT CRITERIA</b>	<b><u>VALLEY COMMERCIAL BANK</u></b> <b>PERFORMANCE LEVELS</b>		
	<b>Exceeds Standards for Satisfactory Performance</b>	<b>Meets Standards for Satisfactory Performance</b>	<b>Does not meet Standards for Satisfactory Performance</b>
Loan-to-Deposit Ratio	X		
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No written complaints had been received about the bank's CRA performance since the prior examination.		

## **DESCRIPTION OF INSTITUTION:**

Valley Commercial Bank is a full-service financial institution founded in 1981. Since its founding, the bank's assets have grown; as of June 30, 1996, it had total assets of \$21.7 million and now has three offices located in Washington County, Oregon. Valley Commercial Bank also is an affiliate of West Coast Bancorp, which operates five banks in Oregon and southern Washington. While it extends a variety of types of loans, such as commercial and residential real estate, small business, industrial, agricultural, and consumer installment and personal lines of credit, the bank is primarily a business-purpose lender. A review of the bank's loan portfolio as of June 30, 1996 reveals the following distribution:

Loans secured by real estate	61%
Commercial/Industrial loans	29%
Consumer-purpose loans	6%
Agricultural loans	4%

With the majority of loans secured by real estate extended for commercial purposes, approximately 80% of the bank's portfolio consists of business loans.

The bank also offers several interest and non-interest bearing deposit accounts for consumers and businesses. While the bank does not have its own ATMs, it does offer its customers access to their accounts through a nationwide ATM network, and it also offers access through a 24-hour telephone line.

The bank's overall CRA performance was rated satisfactory at the previous examination conducted in July 1995. At that time, it was determined that the bank had taken an affirmative role in meeting the credit needs of its entire community in a manner consistent with its resources and capabilities. Given the bank's record, there continues to be no apparent legal or financial impediment, other than its legal lending limit, that restricts the bank's ability to meet its communities' credit needs.

## **DESCRIPTION OF ASSESSMENT AREA: WASHINGTON COUNTY**

The assessment area of Valley Commercial Bank consists of 48 out of the 64 census tracts comprising Washington County, Oregon, all of which are part of the Portland, OR/Vancouver, WA MSA #6440. All three bank offices are located in Washington County, with the main office in Forest Grove, and branches in Hillsboro and North Plains.

According to the 1990 census, the total population of the assessment area is 241,353. In regard to income distribution, the assessment area has 64,500 families, with 14% of these families considered low-income, 16% moderate-income, 25% middle-income, and

45% upper-income. Also, 5% of the assessment area's families are considered to be living below the poverty line. On a dollar income basis, the bank's assessment area median family income is \$41,104, which is substantially higher than the MSA median income at \$36,705 and the state median income is at \$32,336.

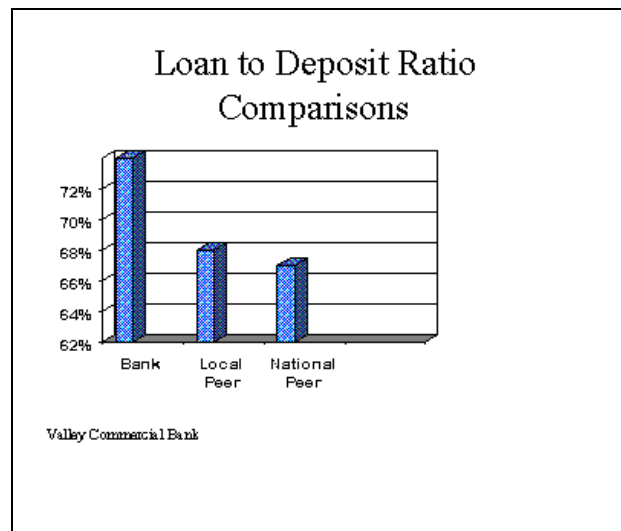
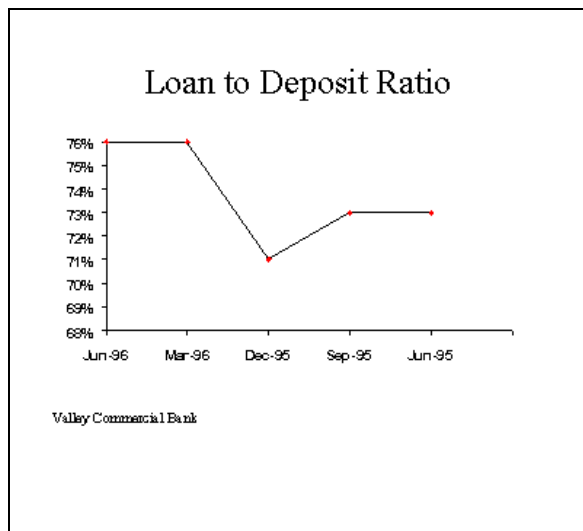
There are three primary employment sectors within the assessment area. They are the service industry (28%), manufacturing (25%), and retail trade (21%). Based on census data, the vast majority (95%) of workers in the county are employed in small businesses that have fewer than 50 employees. The predominance of small business employment was also confirmed by a community contact interviewed during the examination.

The community contact also identified the major employers in the assessment area. The major employer in the area is Intel, a manufacturer of computer pentium processors, located in neighboring Hillsboro. Forest Grove's two largest employers are printed circuit board manufacturer, Merix Corporation, which employs 800 workers, and Stimson Lumber, a finished lumber and hardboard siding manufacturer. Pacific University is also a major employer in Forest Grove. Other large employers in the area are food processing plants for fruits, vegetable and nuts, along with nursery-stock growers and exporters.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

### LOAN TO DEPOSIT RATIO:

Based on the quarterly Consolidated Reports of Condition ("Call Reports") since the previous examination conducted in July 1995, the following chart summarizes the fluctuation's of the bank's loan-to-deposit ratio. As the chart indicates, the bank's ratio

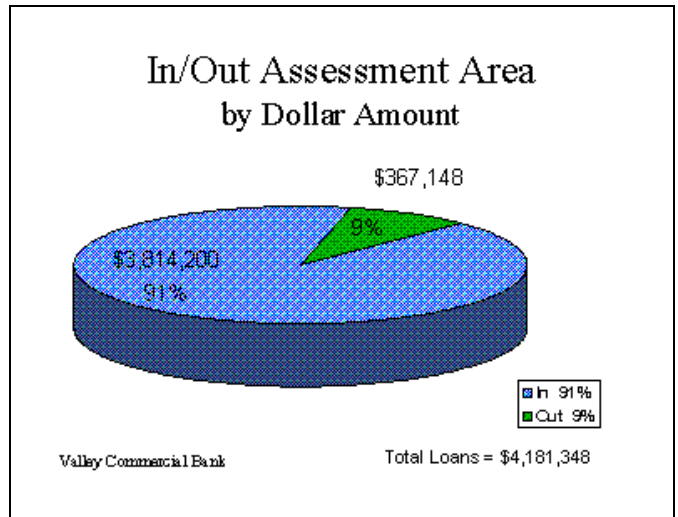
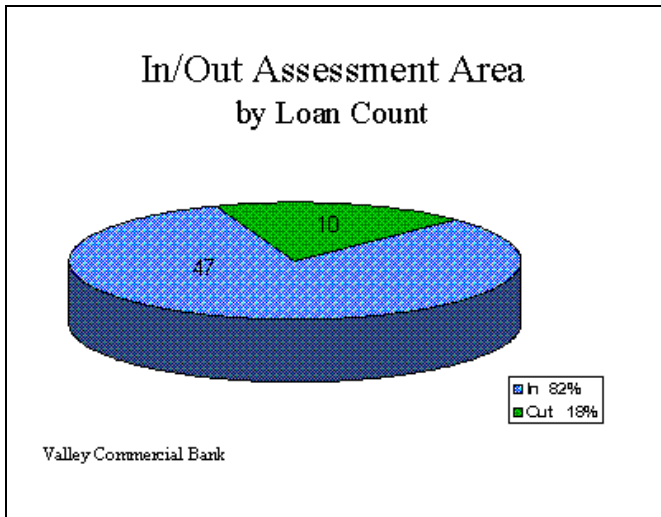


has been fairly constant with a low of 71% and a high of 76%.

Valley Commercial Bank's quarterly average loan-to-deposit ratio is 74%. This exceeds both the bank's local peer group (68%), and national peer group (67%). The bank experienced very strong loan growth since the previous examination, increasing by 38%. This figure is well-above the peer group loan growth percentage of 26%. The bank's deposit growth also exceeded its peers, with Valley Commercial Bank at a 33% growth rate, versus a 21% deposit growth rate of the peer group. Management continues to strive to increase the bank's loan growth further. The institution's current loan-to-deposit ratio exceeds standards for satisfactory performance in this category.

### LENDING IN ASSESSMENT AREA:

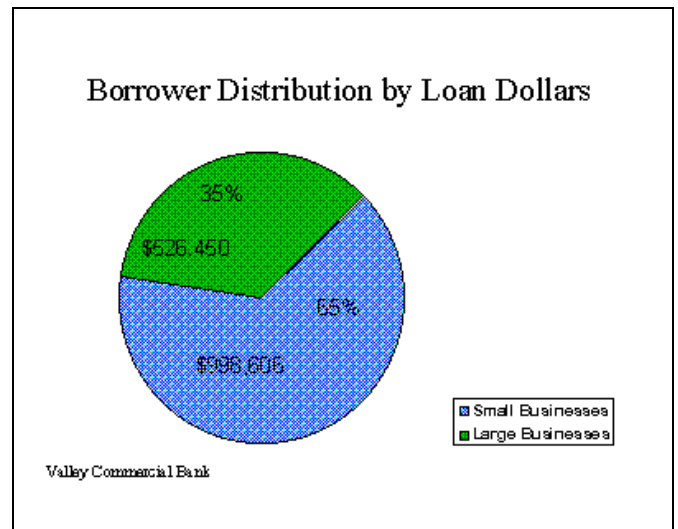
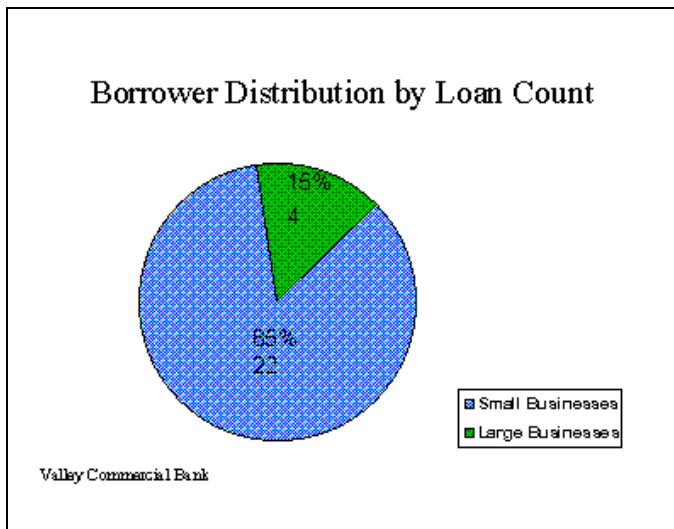
The bank's lending pattern within the assessment area was evaluated by sampling small business loans. This specific loan type was selected because it represents the majority of the bank's loan portfolio by dollar amount. A statistical sample was taken from this loan category and was used to determine the percentage of loans that were made within the bank's assessment area.



The sample reviewed represents 57 loans extended, for a total dollar amount of \$4,181,348 and clearly reflects that the majority of loans by count and total dollar amount are from inside the bank's assessment area (82% and 91% respectively). Based upon the number and dollar amount of loans and percentages, the bank's record of originating loans inside its assessment area is considered satisfactory.

**LENDING BY BUSINESS REVENUE:**

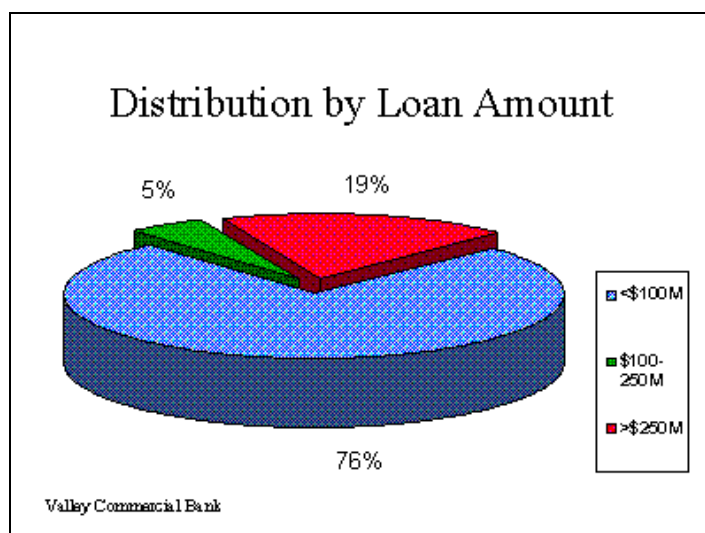
The bank's record of lending to businesses of various sizes is determined in part by analyzing the gross annual revenues of its business borrowers. Forty-seven loans made within the assessment area were used to determine the bank's performance for this criterion.







Of the 47 loans, examiners were able to determine the business size of the borrower by business revenue for 26 loans. Of the 26 loans, 22 or 85% were made to small businesses and 4 or 15% were made to large businesses. For the remaining 21 loans for which the business revenue of the borrower could not be identified, examiners used loan size to determine the percentage of lending to small businesses, assuming small businesses would borrow small dollar amounts. A large majority, 76%, of the 21 loans were made in amounts of \$100 thousand or less. Business loans for small dollar amounts were specifically identified as a major credit need by a city community development official contacted during the examination. The major reason for this credit need, according to the contact, was the fact that large banking institutions seldom extend loans of small amounts to businesses because of the costs involved versus the return on the loan.



While information regarding the number of small businesses within the assessment area is not available, a reasonable substitute for business size is the number of employees. In this regard, based on county data, a substantial majority (95%) of the business establishments in the area employ one to forty-nine employees, suggesting that small businesses are predominant in the area. This information is consistent with comments made by a community contact.

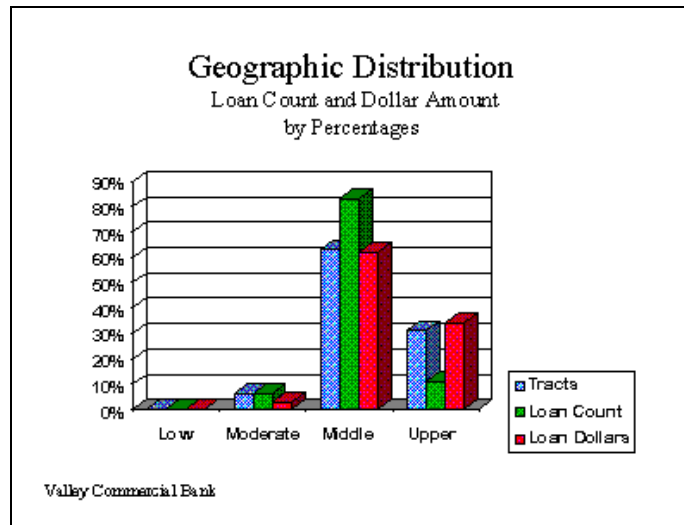
Based on Valley Commercial Bank's record of providing credit to businesses of various sizes, particularly to small businesses, and in low-dollar amounts, the bank's performance in serving the business-credit needs within its assessment area meets standards.

### **GEOGRAPHIC DISTRIBUTION OF LOANS:**

The examiners also evaluated the geographic distribution of the bank's business lending throughout the assessment area. Of the 57 loans used for the in/out analysis,

47 were within the assessment area and were used for this criterion. The demographics of the assessment area identifying the number of low-, moderate-, middle-, and upper-income census tracts were compared to the number and total dollar amount of loans extended within each of those tracts.

There are 48 census tracts within the bank's assessment area. The following graph shows the tracts by income level and the distribution of loans sampled:



### Geographic Distribution

	Tracts by Percent		Loans by Count		Loans by Dollar	
Low	0		0		0	
Moderate	3	6%	3	6%	\$ 126,590	3%
Middle	30	63%	39	83%	\$2,371,851	62%
Upper	15	32%	5	11%	\$1,315,759	34%

Of the 48 census tracts in the bank's assessment area, there are no low-income tracts. Moderate-income tracts comprise 6% of the assessment area, and include 5% of the assessment area population. As illustrated in the above table, the percentage of loans extended by the bank in moderate-income tracts is 6% of the total loans sampled, which is a reasonable loan penetration ratio. The majority of the bank's assessment area is comprised of middle-income census tracts, and correspondingly, the majority of the

loans extended by the bank are represented in that group. The bank has been able to lend in all income geographies, including moderate-income tracts. Overall, the geographic distribution of the bank's lending meets standards for satisfactory performance.

**RESPONSE TO COMPLAINTS:**

The bank did not receive any written complaints about its CRA performance; therefore, the bank's record of taking action in response to such complaints could not be evaluated.

**COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS:**

While violations of Regulation B (the Equal Credit Opportunity Act) and Regulation C (the Home Mortgage Disclosure Act) were found during the examination, the violations were of technical provisions that were not indicative of any discriminatory practices on the part of the bank.

The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations such as the Fair Housing Act and the Equal Credit Opportunity Act. Moreover, interviews conducted with lending staff, a review of the bank's loan distribution, and a review of credit evaluation procedures showed no evidence that prospective applicants are discouraged from seeking the types of loans offered by the bank. Furthermore, the bank has affirmatively adopted a fair lending policy, periodically conducts fair lending training, and has implemented an informal secondary review process for all loan requests to ensure that all applicants are treated equally.