PUBLIC DISCLOSURE

July 6, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Home Valley Bank
RSSD #20866

110 SW 4th Street
Grants Pass, Oregon 97526

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

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

TABLE OF CONTENTS

INSTITUTION RATING

Institution's CRA Rating

Home Valley Bank is rated "SATISFACTORY"

The major factors supporting the institution's rating include:

- A substantial majority of small business, home refinance and home purchase lending within the bank's assessment area;
- A reasonable geographic distribution of loans, with high levels of small business and home purchase lending in distressed middle-income census tracts and a high level of refinance lending in moderate-income census tracts; and
- A reasonable distribution of lending to businesses of different revenue sizes and borrowers of all income levels.

INSTITUTION

Description of Institution

Home Valley Bank (HVB), headquartered in Grants Pass, Oregon, is a wholly-owned subsidiary of Home Valley Bancorp, with total assets of $241.2 million as of December 31, 2008. HVB currently operates five full-service branches within Josephine County, Oregon. Four branches, including the headquarters office, are located in Grants Pass, with the remaining branch located in the city of Cave Junction. During the review period, the bank relocated its Cave Junction and Parkway branches within Cave Junction and Grants Pass, respectively. Additionally, the bank added the South River branch in Grants Pass.

HVB is a full-service community bank that provides an array of banking-related products and services. However, the primary focus for the bank continues to be commercial lending. Commercial products include credit facilities for real estate acquisition, construction, equipment, and working capital. While the bank is an active residential mortgage lender that extends loans for both the purchase and refinance of single family residences, these loans are normally sold in the secondary market and held in portfolio on an accommodation basis only. However, due to constraints in the secondary market, the bank has held a higher number of residential loans in its portfolio than in past years. Also, HVB offers a range of other consumer products that include auto loans, construction loans and home equity lines of credit.

Below is the December 31, 2008, loan portfolio as stated in the Consolidated Reports of Condition and Income, which shows the bank's commercial focus.

EXHIBIT 1 LOANS AND LEASES AS OF DECEMBER 31, 2008		
Loan Type	**$ ('000s)**	**%**
Commercial/Industrial & Non-Farm Non-Residential Real Estate	93,217	44.9
Secured by 1-4 Family Residential Real Estate	68,239	32.8
Construction & Land Development	39,775	19.1
All Other	4,377	2.1
Consumer Loans & Credit Cards	2,337	1.1
Total (Gross)	**207,925**	**100.0**

During this review period, HVB faced no legal or financial impediments that would prevent it from helping meet the credit needs of its assessment area consistent with its business strategy, size, financial capacity, and local economic conditions. The bank received a satisfactory rating at its previous Community Reinvestment Act (CRA) examination conducted as of May 16, 2005.

Description of Assessment Area

The bank's assessment, which consists of Josephine County in its entirety, remains unchanged since the previous examination. The county is situated in southwestern Oregon and is bordered by coastal Curry County to the west, Douglas County to the north, Jackson County to the east, and the state of California to the south. The estimated population of Josephine County was 81,618 in 2008, with 33,171 individuals concentrated in Grants Pass and 1,353 individuals in Cave Junction.[1] The assessment area consists of three moderate-income census tracts, 12 middle-income census tracts and one upper-income census tract. The county is within a non-metropolitan statistical area, and all 12 of the middle-income census tracts are defined by the Federal Financial Institutions Examination Council as distressed. This designation typically identifies rural areas experiencing high unemployment and poverty rates or significant population losses.[2]

HVB has a moderate presence in the assessment area. As of June 30, 2008, there were a total of 12 FDIC-insured financial institutions within the bank's assessment area, with HVB holding a market share of 14.8 percent.[3] Of the 12 institutions operating in the assessment area, four were large national banks. The bank's five branches held $177 million in deposits, ranking 2nd of the 12 FDIC-insured financial institutions within the assessment area.[4] In 2008, there were 29 financial institutions required to report small business loans under the CRA and these institutions originated 3,529 small business loans.[5] Moreover, these lenders represent only a portion of the overall market. Despite the relatively small population in Josephine County, there are a number of institutions competing for bank services in the assessment area.

The following exhibit presents key demographic and business information, based on the 2000 U.S. Census and 2008 Dun and Bradstreet data, used to help develop a performance context for the assessment area.

[1] Source: U.S. Census Bureau, 2007 and 2008 Population Estimates, Census 2000, 1990 Census.
[2] FDIC List of Distressed or Underserved No metropolitan Middle income geographies (accessed July 1, 2009); http://www.ffiec.gov/cra/examinations.htm.
[3] FDIC, Market Share Selection, *Summary of Deposits*, June 30, 2008 (accessed July 1, 2009); available from: http://www3.fdic.gov/sod/sodMarketRpt.asp?barItem=2.
[4] FDIC, Market Share Selection, *Summary of Deposits*, June 30, 2008 (accessed July 1, 2009); available from: http://www3.fdic.gov/sod/sodMarketRpt.asp?barItem=2.
[5] 2008 Large Bank CRA Reporting Data.

EXHIBIT 2 ASSESSMENT AREA DEMOGRAPHICS JOSEPHINE COUNTY								
Income Categories	**Tract Distribution**		**Families by Tract Income**		**Families< Poverty Level as % of Families by Tract**		**Families by Family Income**	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	4,817	22.3
Moderate-income	3	18.8	3,988	18.5	728	18.3	4,210	19.5
Middle-income	12	75.0	15,896	73.7	1,624	10.2	5,070	23.5
Upper-income	1	6.3	1,685	7.8	83	4.9	7,472	34.6
Total AA	*16*	*100.0*	*21,569*	*100.0*	*2,435*	*11.3*	*21,569*	*100.0*
Income Categories	**Housing Units by Tract**	**Housing Types by Tract Income**						
		Owner-occupied			**Renter-occupied**		**Vacant**	
		#	%-tract	%-units	#	%	#	%
Moderate-income	6,631	3,804	17.5	57.4	2,142	32.3	685	10.3
Middle-income	24,114	16,380	75.4	67.9	6,319	26.2	1,415	5.9
Upper-income	2,494	1,529	7.0	61.3	826	33.1	139	5.6
Total AA	*33,239*	*21,713*	*100.0*	*65.3*	*9,287*	*27.9*	*2,239*	*6.7*
Income Categories	**Total Businesses by Tract**		**Businesses by Tract Income & Revenue Size**					
			Less than or Equal to $1 Million		**Greater Than $1 Million**		**Revenue Not Reported**	
	#	%	#	%	#	%	#	%
Moderate-income	844	19.5	780	19.5	40	19.0	24	23.3
Middle-income	2,917	67.6	2,719	67.9	137	64.9	61	59.2
Upper-income	557	12.9	505	12.6	34	16.1	18	17.5
Total AA	*4,318*	*100.0*	*4,004*	*100.0*	*211*	*100.0*	*103*	*100.0*
Percent of Total Businesses:			*92.7*		*4.9*		*2.4*	

2004 MSA Median Family Income:	$39,823	December 2008 Median Housing Value:[6]	$217,000
2008 HUD Adjusted Median Housing Value:	$48,100	December 2008 Unemployment Rate:[7]	10.6%

Josephine County's economy has historically had a heavy reliance on the logging and timber products manufacturing industry; however, the economy has become more diversified with an increase in the high technology, medical care, tourism, retirement services, retail trade, and other service and manufacturing sectors.[8] Another factor driving the economic diversification stems from the fact that Josephine County has seen a large increase in the population of retirees, most of which have migrated from California.[9] This growing retiree population has been a contributing factor to the growth in the health care sector, which had become the largest source of employment in Josephine County in 2008. Currently, the area's largest employers are Three Rivers Community Hospital, US Forest Industries, Schrock Cabinet Co., Timber Products/Grants Pass Hardwoods Division, and Litton Applied Technology.[10] Josephine County's economy

[6] Zillow.com, Josephine Home Prices, Home Values, and Property Values, accessed on June 25, 2009.
[7] Bureau of Labor Statistics (Haver Analytics), May 1, 2009.
[8] http://www.co.josephine.or.us/files/0708introduction.pdf.
[9] www.qualityinfo.org/olmisj/PubReader?itemid=00004095.
[10] http://info.econ.state.or.us:591/FMPro?-db=Community.fp4&-Format=forms.htm&-lay=webpage&-op=eq&sort%20name=Grants%20Pass&-Find.

began to slow in 2007 and that trend continued throughout 2008.[11] The county suffered financially in 2007 when the federal government discontinued funding for "National Forest System" lands. This funding comprised 77.0 percent of Josephine County's public safety fund revenues.[12] As a result, many government jobs were eliminated which contributed to a significant increase in unemployment and leaving unemployment at 10.6 percent by year end 2008. In line with the economic downturn and related budget deficits, state government and consumer-related industries were also contracting.[13] As previously noted, all middle-income census tracts in the assessment area have been classified as distressed due to the high unemployment rates.

As shown in Exhibit 2, small businesses comprise a substantial number of all businesses in Josephine County with 92.7 percent of all businesses having gross annual revenues of less than or equal to $1 million. While there are lenders in the market focused on meeting the needs of these small businesses, many lenders tightened standards and terms on all major loan products due to the declining economic environment during the review period. According to the January 2009 Senior Loan Officer Opinion Survey on Bank Lending Practices conducted by the Board of Governors of the Federal Reserve System, the net percentages of respondents that reported tightening standards increased relative to the previous surveys for both commercial and industrial loans and commercial real estate. Also, survey results indicate that the demand for loans from both businesses and households weakened in the review period. Even though there has been some decline in demand, community representatives indicated that there is a continuing need for micro loans for start up businesses and working capital loans despite the current economic environment.

During the review period, Josephine County home prices declined significantly with the median housing value as of December 31, 2008 falling to $217,000. However, despite this decline in value, housing affordability is still out of reach for many assessment area families. To illustrate using figures from Exhibit 2 above, the fourth quarter median home price in Josephine County was $217,000; however, this figure is still well beyond a low-income individual's means. A low-income individual earning 50.0 percent of the 2008 HUD-adjusted median family income for Josephine County, or $24,050, may be able to qualify for a 30-year fixed mortgage of approximately $61,400 with an interest rate of five percent, zero down payment and no existing debt.[14]

The gap between incomes and home prices coupled with tighter credit help support community contact assertions that there is a continuing need for the support and development of affordable housing programs in the area. Community contacts also cited an increased need to assist homeowners experiencing mortgage delinquency and foreclosure by providing them with access to counseling services and other resources such as foreclosure prevention programs.

[11] http://www.qualityinfo.org/pubs/llt/pdf/08-08/0808-rv.pdf.
[12] http://www.co.josephine.or.us/files/0708introduction.pdf.
[13] FDIC: RECON, http://www2.fdic.gov/recon, July 1, 2009.
[14] CNN Money.com, *How Much House Can You Afford?* (accessed July 2, 2009); available at: http://cgi.money.cnn.com/tools/houseafford/houseafford.html.

Scope of Examination

The CRA performance was evaluated using the Interagency Small Institution Examination Procedures. The evaluation was based on the following performance criterion:

- Loan volume compared to deposits (Loan-to-Deposit Ratio);
- Lending inside versus outside the assessment area (Lending in the Assessment Area);
- Dispersion of lending throughout the assessment area (Lending Distribution by Geography); and
- Distribution of lending to businesses of different sizes and borrowers of different income levels (Lending Distribution by Business Revenue and Borrower Income).

Responsiveness to consumer complaints was not evaluated since the bank did not receive any complaints related to its CRA-performance during the review period.

The evaluation was based on small business, home refinance, and home purchase loans originated within the bank's assessment area during the period from January 1, 2007 through December 31, 2008. A total of 169 small business loans, 116 home refinance loans, and 59 home purchase loans were used in the evaluation of *Lending in the Assessment Area*. A sample of 59 small business loans, 50 home refinance loans, and 35 home purchase loans extended within the bank's assessment area were used to evaluate *Lending Distribution by Geography* and *Lending Distribution by Business Revenue and Borrower Income*. There were insufficient volumes of home improvement and small farm loans for a meaningful analysis so these products were excluded from this review.

Products were weighted according to volume. Therefore, the evaluation placed the greatest weight on small business, followed by home refinance, and home purchase loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

HVB's loan-to-deposit ratio is reasonable. The bank's eight-quarter average loan-to-deposit ratio of 105.0 percent as of December 31, 2008 is reasonable although it fell below the state average and national peer loan-to-deposit ratios of 101.6 percent and 88.9 percent, respectively.

Lending in Assessment Area

A substantial majority of small business, home refinance, and home purchase loans was extended within the bank's assessment area by both number and dollar volume.

EXHIBIT 3
LENDING INSIDE AND OUTSIDE THE ASSESSMENT AREA
JANUARY 1, 2007 TO DECEMBER 31, 2008

Loan Type	Inside				Outside			
	#	%	$ ('000s)	%	#	%	$ ('000s)	%
HMDA Home Purchase	49	83.1	8,661	77.6	10	17.0	2,505	22.4
HMDA Refinance	109	93.4	22,710	95.6	7	6.0	1,043	4.4
Total HMDA-Related	158	90.3	31,371	89.8	17	9.7	3,548	10.2
Small Business	159	94.1	31,288	92.4	10	5.9	2,572	7.6

Lending Distribution by Geography

The geographic distribution of loans is reasonable. Small business and home mortgage loans were made within census tracts of all income categories with no conspicuous lending gaps or unusual lending patterns.

Small Business Loans

The geographic distribution small business loans is reasonable. As shown in the Exhibit 4 below, small business loans were made within census tracts of all income categories, with noteworthy performance in the distressed middle-income census tracts where the bank's lending exceed the percentage of businesses and the aggregate lending.

EXHIBIT 4 GEOGRAPHIC DISTRIBUTION OF SMALL BUSINESS LOANS			
Census Tract Income Category	**Bank Lending (%)**	**Business Concentration (%)**	**Aggregate Lending (%)**
Moderate	10.2	19.6	18.8
Middle	71.2	67.6	69.6
Upper	18.6	12.9	11.6

Home Mortgage Lending

The geographic distribution of home mortgage loans is also reasonable. Exhibit 5 below shows that HVB was particularly effective in extending home refinance loans in moderate-income geographies, with lending exceeding the percentage of families and the aggregate market. In addition, home purchase lending in the distressed middle-income geographies was particularly strong with the lending exceeding the aggregate market and the percentage of owner-occupied housing units. While HVB was not as successful in extending home purchase loans in moderate-income geographies, performance remained adequate in this area.

EXHIBIT 5 GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS					
Census Tract Income Level	**Loan Type**				**Owner Occupied Housing (%)**
	Home Purchase		**Home Refinance**		
	Bank Lending (%)	**Aggregate Lending (%)**	**Bank Lending (%)**	**Aggregate Lending (%)**	
Moderate	5.7	16.6	26.0	15.6	17.5
Middle	88.6	75.8	66.0	76.5	75.4
Upper	5.7	7.6	8.0	7.9	7.0

Lending Distribution by Business Revenue and Borrower Income

The level of lending to businesses of different revenue sizes and borrowers of different income levels is reasonable.

Small Business Lending

The level of lending to small businesses is reasonable. As shown in Exhibit 6 below, a majority of loans were made to small businesses. In addition, lending to small businesses compares favorably to the aggregate market and reasonably to the percentage of small businesses with the assessment area. Finally, a good portion of loans were extended in amounts under $100,000 thereby addressing an articulated credit need of small business entities with limited debt capacity.

EXHIBIT 6 BORROWER DISTRIBUTION OF SMALL BUSINESS LOANS							
	Businesses with Revenue <= $1 Million		Originations Regardless of Revenue Size			Aggregate Lending	
County	Bank Loans (%)	All Businesses (%)	<=$100K (%)	>$100K and <=$250K (%)	> $250K and <=$1M (%)	All Loans	Revenue <= $1 Million (%)
Josephine	57.6	92.7	44.1	25.4	30.5	4,220	44.1

Home Mortgage Lending

The borrower distribution of home mortgage loans is reasonable. Exhibit 7 below shows that HVB was particularly successful in extending home refinance and home purchase loans to moderate-income borrowers relative to the aggregate market and the percentage of families. Neither the bank nor the aggregate market, however, was particularly successfully in reaching low-income borrowers relative to the percentage of low-income families in the assessment area. Nevertheless, the lack of lending is primarily explained by the housing affordability issues previously discussed. Also, HVB did perform somewhat better than the aggregate in extending home refinance loans to low-income borrowers.

EXHIBIT 7 BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS					
Borrower Income Level	Loan Type				Families (%)
	Home Purchase		Home Refinance		
	Bank Lending (%)	Aggregate Lending (%)	Bank Lending (%)	Aggregate Lending (%)	
Low	0	1.3	4.0	3.0	22.3
Moderate	17.1	8.8	16.0	12.9	19.5
Middle	20.0	22.8	20.0	25.0	23.5
Upper	62.9	67.1	60.0	59.1	34.6

Response to Complaints

There were no complaints related to its CRA during the review period. Accordingly, the bank's performance in responding to complaints was not considered in evaluating its overall CRA performance

Fair Lending or Other Illegal Credit Practices Review

The fair lending review performed concurrently with this examination did not evidence any discriminatory or other illegal credit practices. The bank has established fair lending policies and procedures and other controls that are designed to ensure compliance with fair lending and other credit practice rules, laws, and regulations.

GLOSSARY OF TERMS

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of $1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize:
(i) Low-or moderate-income geographies;
(ii) Designated disaster areas; or
(iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on:
    a. Rates of poverty, unemployment, and population loss; or
    b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-scope review: Performance under the lending and community development tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance under the lending and community development tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units**.**

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution’s CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of $1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in ‘loans to small farms’ as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of $500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.