

PUBLIC DISCLOSURE

August 19, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Valley Community Bank
12-41-0381-0000**

**723 North Baker
McMinnville, Oregon 97128**

**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 Community Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of August 19, 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 low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>VALLEY COMMUNITY BANK</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
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 complaints had been received since the prior examination.		

DESCRIPTION OF INSTITUTION:

Valley Community Bank is wholly owned by Valley Community Bancorp and located in Yamhill County in Oregon. It is headquartered in the city of McMinnville which listed a population of approximately 22,000¹ in 1995. The bank also operates a limited facility with reduced operating hours at the Hillside Manor Retirement Home in McMinnville. Customers can conduct deposit and withdrawal transactions at this location. Both the Main office and the limited facility are located in two of the six middle-income census tracts that comprise Yamhill County.

The bank's total assets as reflected in the Consolidated Report of Condition and Income (CALL Report) dated June 30, 1996, is \$28,854M. Management indicated that the bank's primary emphasis is business and farm lending and this was confirmed by a review of the CALL Report. The bank's loan portfolio indicates the following distribution:

Commercial and Industrial	35%
Agricultural Lending	34%
Real Estate	28%
Consumer Purpose	3%

The distribution reveals that Valley Community Bank is successful in extending credit through a variety of loan products.

As of the period under review, there were no financial or legal impediments that may have affected the bank's ability to meet the requirements of the Community Reinvestment Act (CRA).

DESCRIPTION OF YAMHILL COUNTY:

Valley Community Bank's assessment area consists of Yamhill County which is one of the six counties that comprise the Portland-Vancouver MSA (Metropolitan Statistical Area) 6440. The county is made up of 15 cities and 10 census tracts, four of the census tracts (302,305,309 and 310) are moderate-income census tracts while the remaining six (301,303,304,306,307 and 308) are middle income census tracts. The population of the county in 1995 was 74,600². The 1990 U.S. Census Data indicates that the median family income for the assessment area as \$32,200 while the MSA has a slightly higher figure at \$36,705.

The assessment area's six middle-income census tracts comprise the majority of the assessment area's low- and moderate-income households at 58%. The population

¹ Estimate by the Portland State University Center for Population Research and Census

² Estimate by the Portland State University Center for Population Research and Census.

distribution also reflects more households in the middle-income level census tracts at 14,352 versus only 8,047 households in the moderate-income census tracts.

Individuals over the age of 65 comprise 13.2% which is slightly higher than the MSA's 12% but comparable to the state's 13.8%. Since the county's emphasis is on farming, the statistics reflect the Oregon Department of Agriculture's analysis that indicates nearly one-fourth of Oregon's farm owners are over 65 years of age.

According to the Oregon State Employment Department, Yamhill County's unemployment rate was 6% in 1993 while the state's overall unemployment rate was 7.2%. The steadily increasing population, as reflected by a 14% increase from 65,551 (1990 U.S. Census Data) to 74,600, lends credence to the fact that the inflow of population to the county is going to continue. Overcrowding, climate, economic distress and natural hazards in neighboring states and across the nation makes Oregon's counties prime relocation destinations.

Yamhill County's economic fortunes are closely tied to durable goods manufacturing, including lumber and wood products, primary metal, medical and dental equipment. The county's largest employers include: Cascade Steel Rolling Mills, Nursery Supplies, Amerson Sheet Metal, D-Stake Mill (lumber products), Zieman Manufacturing (mobile home chassis), Elastomeric Silicone Products (rubber products), A-DEC (dental equipment), Climax (portable machine tools), and Freelin-Wade (plastic tubing).

Agriculture is also an important contributor with over \$150 million in 1995 with sales concentrated in grain, hay, grass and legume seeds, tree fruit and nuts, vegetable and truck crops, nursery crops, small woodlots and Christmas trees. Due to a long, moderate growing season, like the wine regions of France and Germany, the wine industry is another major employer as the county consists of 100 vineyards and 32 wineries.

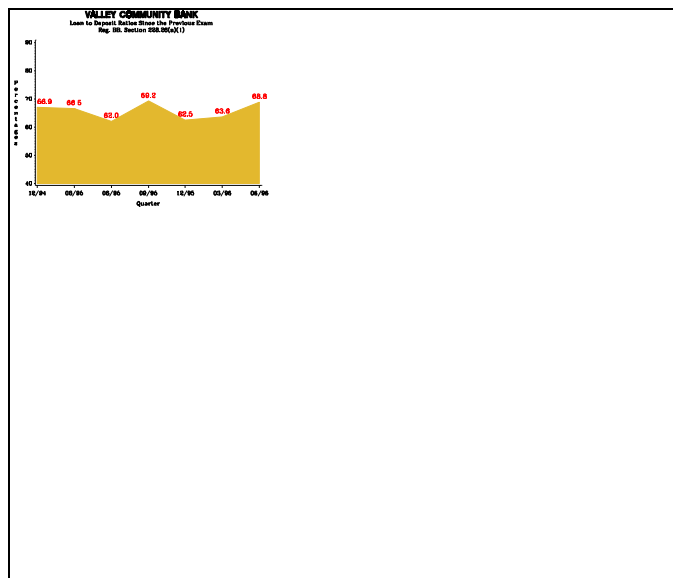
Management emphasized that the credit needs of the community are small business loans for start-ups, purchase of business equipment and short-term working capital for operating expenses. Small farm loans were also needed as the county is mainly an agricultural county with an abundance of farms and wineries. Credit needs identified through a community contact stressed housing loans with the rise in the populace of the county as well as small business loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN TO DEPOSIT RATIO:

Valley Community Bank's average loan-to-deposit ratio, derived by obtaining an average of the previous seven quarters (December 1994 through June 30, 1996) from the corresponding CALL Reports, is 66%. During the period of review, the ratios fluctuated only slightly as evidenced by the graph. The increase in deposits over the most recent three quarters was minimal as the figures ranged from \$25,693M to \$25,347M.

The peer group data, generated from the Uniform bank Performance Report of similarly-situated³ banks reflected loan-to-deposit ratios ranging from 47% to 73%. Since there were no suitable peers within the bank's assessment area, examiners selected peers from the neighboring counties of Washington and Multnomah located in the same MSA as the bank. The bank's loan-to-deposit ratio is reasonable as the review of the bank's lending activities indicate that the bank endeavors to make the types of loans most needed by its delineated community.



³For Valley Community bank, similarly-situated banks are those commercial banks having assets between \$25 million and \$50 million with 3 or more banking offices, and located in a metropolitan statistical area.

LENDING IN ASSESSMENT AREA

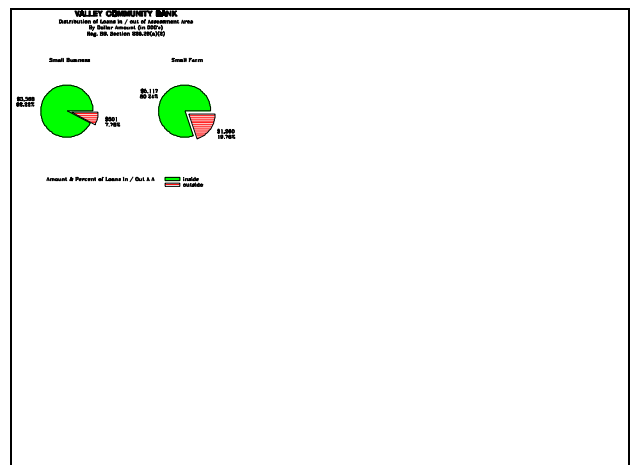
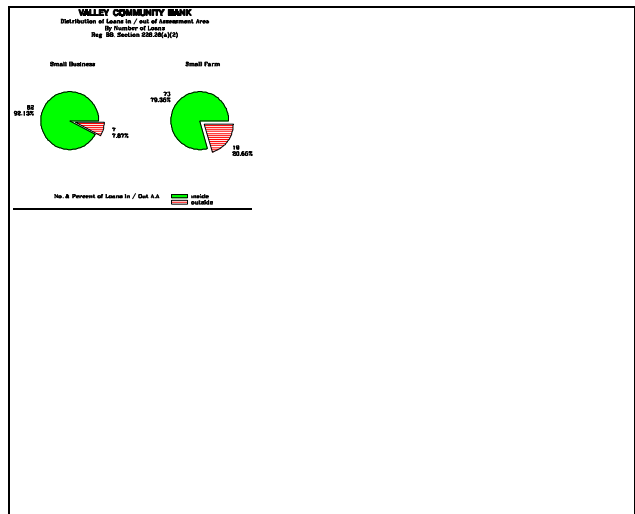
The bank's two major products, business and farm loans, were analyzed with a statistical sample drawn from loans extended since the previous examination.

The analysis, which matched the census tracts of the loans to the assessment area's ten census tracts, indicated that a substantial majority of the credit extensions were made within the bank's assessment area.

Of the 89 business loans reviewed during the examination, 82 (92%) were within the bank's lending area. In addition, nearly 80% (73 from a universe of 92) of the farm loans were extended to borrowers residing inside the bank's assessment area.

In terms of dollar amounts, \$3,568,013 of the business loans and \$5,117,069 of the farm loans were within the bank's assessment area.

This analysis mirrored the bank's review of its lending patterns documented on a map through the use of street addresses. The bank's performance in this category is exceptional indicating that it is successfully meeting the needs of the whole county.



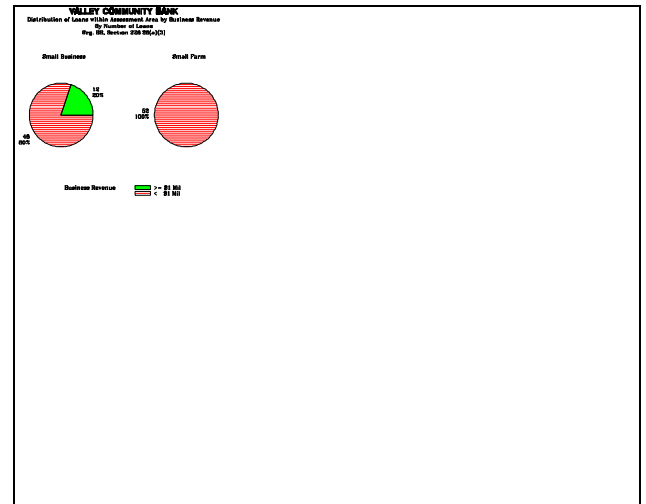
LENDING BY BORROWER INCOME AND BY BUSINESS REVENUE

Examiners also performed an analysis of the type of business borrower to which the bank is extending credit by reviewing the business revenues of borrowers. The selected sample of 60 business loans reflected 48 (80%) extended to businesses with revenues less than \$1 million. Additionally, 55 (92%) of the 60 loans were made in amounts less than or equal to \$100,000, indicating that the bank is making an effort to meet the needs of those borrowers that require small loans to finance their businesses.

For farm loans, the sample of 52 loans indicated that all (100%) were extended to farms with revenues less than \$1 million. Additionally, 42 (77%) loans were less than or equal to \$100,000.

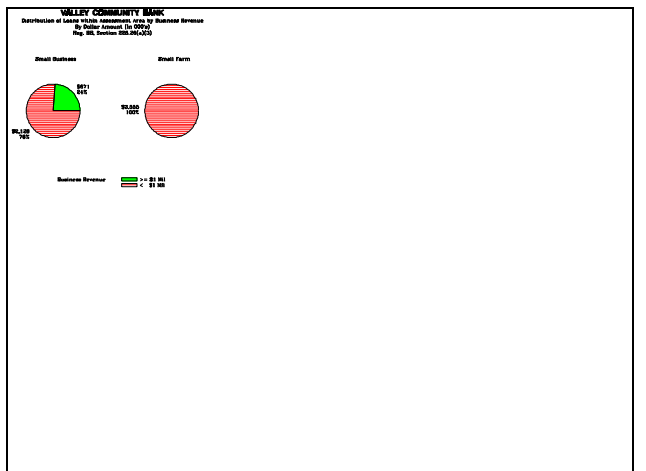
The distribution of small business loans by dollar amounts indicated that, of the total \$2,798,510 for loans extended, \$2,128,005 were extended to businesses with revenues under \$1 million. Additionally, of the farm loan sample, the total amount of \$3,555,449 all resulted in originations to farms with revenues less than \$1 million.

The distribution of the bank's loans to businesses and farms with revenues less than \$1 million reflects exceptional performance as the bank is addressing an identified credit need in its assessment area.



GEOGRAPHIC DISTRIBUTION OF LOANS

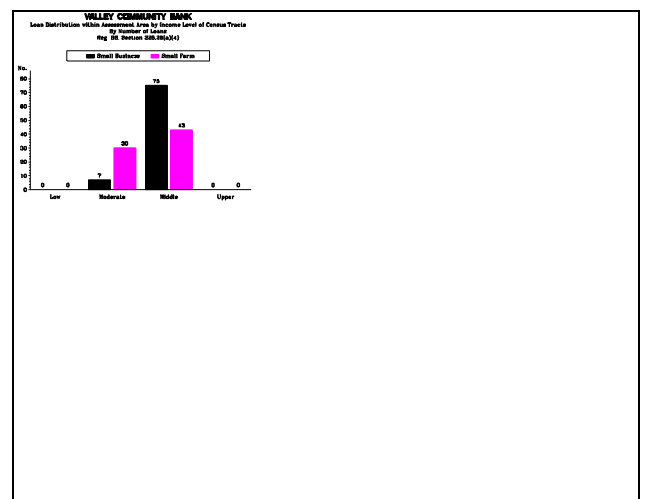
The 82 business loans and 73 farm loans were analyzed to determine the geographic dispersion throughout the bank's assessment area.



Results indicated that only 9% (7) of the 82 business loans were located in moderate-income census tracts which make up 40% of the assessment area. The remaining 91% (75) were located in middle-income census tracts which make up 60% of the assessment area.

In terms of dollar amounts for business loans, 20% (\$713,050) were located in moderate-income tracts and 80% (\$2,854,963) were located in middle-income tracts.

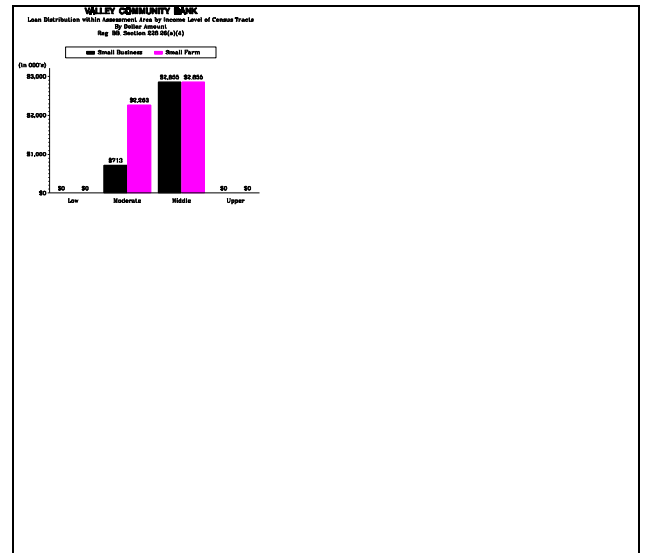
Although the geographic distribution of the bank's business loans indicates a disproportionate distribution, (very little lending in moderate-income tracts, which comprise 40% of the assessment area) further investigation revealed that the distribution is actually reasonable. Examiners noted that the



moderate-income tracts were

located on the outskirts of the county where farming is predominant and thus one would not expect to see many business loans in these areas. A geographic analysis of the farm loans also supports these expectations.

The review of the farm loans disclosed that 30 (41%) of the originations were in the moderate-income census tracts with the remaining 43 (59%) extended to borrowers in the middle-income census tracts. With regard to the dollar amounts of farm loans, 44% (\$2,262,544) of the loan dollars were located in moderate-income census tracts and 56% (\$2,854,525) were located in middle-income census tracts.



This distribution by number and dollar amount of loans compares reasonably with the distribution of census tracts with moderate-income and middle-income tracts comprising 40% and 60% respectively.

Overall, the distribution of loans by the income level of census tracts is reasonable given the demographics of the assessment area.

RESPONSE TO COMPLAINTS

The bank has not received any complaints since the previous examination. This category was, therefore, not applicable in assessing the bank's overall performance.

A review of the four performance criteria, which included examiner analysis of the two primary credit products, indicates that the bank is meeting the needs of the community in a satisfactory manner as reflected by the reasonable loan-to-deposit ratio; heavy concentration of loans in its assessment area; successful extensions of credit to small businesses and small farms; and reasonable penetration in the moderate- and middle-income level census tracts.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS

Valley Community Bank had no violations of the substantive provisions of antidiscrimination laws (Equal Credit Opportunity Act, Fair Housing Act, or Home Mortgage Disclosure Act). There were Regulation B violations; however, they were of the technical provisions of the regulation and did not involve illegal discrimination. The bank's loan policy includes fair lending policies and procedures and the bank's

training program incorporates regulations pertaining to fair lending. The bank's outside auditor also includes a review of some of the consumer compliance regulations applicable to the bank's activity.

Moreover, management has taken a proactive stance towards consumer compliance laws and regulation.