PUBLIC DISCLOSURE

October 5, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

AMERICAN PACIFIC BANK

RSSD ID No.: 92162

121 S.W. Morrison Street, Suite 900
Portland, Oregon 97204

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 Community Reinvestment Act (CRA) performance for **American Pacific Bank** prepared by the Federal Reserve Bank of San Francisco, the institution's supervisory agency, as of **October 5, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to CFR Part 228.*

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

Basis for Rating

American Pacific Bank's overall performance has improved from needs to improve to satisfactory. This was primarily due to an improvement in the concentration of its lending within its assessment area. The availability of borrower income and business revenue data also enabled the evaluation of the bank's record of lending to borrowers of different income levels and businesses of different sizes at this examination. This evaluation was not possible at the previous examination due to the lack of sufficient data; however, current information, particularly as it relates to small business lending, is consistent with satisfactory performance. The assessment also reflected a reasonable loan-to-deposit ratio which demonstrates a growing response to credit needs consistent with its resources and capacity. Notwithstanding these positive elements, the bank's relatively low distribution of loans in low- and moderate-income areas continues to warrant management's attention. Improvement in lending in moderate-income tracts was apparent at this examination; however, lending activity is not commensurate with the bank capacity or expertise.

DESCRIPTION OF INSTITUTION:

American Pacific Bank is a full service financial institution. On May 1, 1998, the bank moved its headquarters from Mill City, Oregon to Portland, Oregon, the previous location of its loan production office. With the relocation of the head office, the Mill City facility was closed effective May 8, 1998. The bank continues to maintain a branch in Aumsville, Oregon, but also closed its remaining loan production office in Salem, Oregon during the first quarter of 1998.

The bank continues to offer a variety of consumer and commercial credit products. Commercial loans include short-term loans for working capital, loans to purchase capital equipment, loans secured by accounts receivable and loans secured by commercial real estate. Consumer loans include construction permanent, new and used automobile loans, and other retail credit including credit card plans. The bank offers residential real estate loans through brokers and correspondents.

The bank has grown approximately 10 percent since the previous examination of October 6, 1997. Based on June 30 comparative data, total assets are up from $42 million at June 30, 1997 to $45 million at June 30, 1998. Growth in the loan portfolio largely contributed to this increase as net loans for the same comparative period grew by more than 7 percent. Gross loans continue to represent the primary component of the bank's asset base, aggregating $32 million or 71 percent of total footings. Depicted in the following table is the composition of the loan portfolio by loan type:

Loan Product Classifications	Percent of Loan Portfolio
Business Loans:	
Construction and Land Development	24.0
Commercial, industrial and other business purpose loans	1.7
Loans secured by non-farm, non-residential real estate	36.9
Farm Loans:	
Finance agricultural production	1.0
Secured by farmland	3.3
Consumer Loans:	
Individuals for consumer purposes	9.0
Secured by 1-4 family residential properties	24.1
TOTAL	100.0

As reflected in the table, the bank's primary products are comprised of commercial loans representing 39 percent of the loan portfolio, followed by real estate loans to consumers and construction and land development financing both representing a comparable 24 percent of outstanding loans. The lending in these latter two categories represents the bank's response to home credit from a retail as well as wholesale perspective. As part of its business strategy, the majority of the credit extensions in the bank's "construction and land development" portfolio are to commercial real estate developers specializing in residential construction.

American Pacific Bank also continues to be an active credit card lender with outstandings representing 88 percent of the bank's consumer loan portfolio. The bank's credit card product is primarily secured credit offered on a nationwide basis. To a much more limited degree, the bank extends unsecured credit on an accommodation basis in response to requests emanating from within its assessment area. The bank's business strategy in offering the secured credit card product centers on profitability as well as the fact that the plan enables individuals who do not meet the qualifications of a conventional unsecured card, access to credit.

The bank has no financial constraints or legal impediments that may hinder credit extensions. However, the bank, now headquartered in an urban area, faces a competitive marketplace from one-unit banks as well as local branches of large statewide organizations.

DESCRIPTION OF ASSESSMENT AREA

American Pacific Bank expanded its assessment area in conjunction with the relocation of its headquarters to Portland, Oregon. Portland is situated in Multnomah County and is surrounded by Clackamas and Marion counties to the south and Washington to the northwest. The bank's revised assessment area now includes portions of Marion County, which encompasses the location of the Aumsville office, and the whole counties of Multnomah, Clackamas and Washington. The latter three counties are a part of the Portland-Vancouver[1] PMSA (Primary Metropolitan Statistical Areas). This assessment area consists of 295 census tracts, and reflects a substantial increase (246 census tracts) from the previous total of 49. Although the assessment area contains 295 contiguous geographies, examiners only considered 285 in their analysis as 10 were census tracts with zero population.[2]

Depicted in the following table is the composition of the tracts in the bank's assessment area along with the corresponding number of families that reside within those geographies as of the 1990 U.S. Census.

Census Tract Income Levels

Tract Income Level	Total Census Tracts		Total Families	
	#	%	#	%
Low	8	3	3,939	1
Moderate	57	20	48,292	15
Middle	158	55	200,968	60
Upper	62	22	78,351	24
Total	285	100	331,550	100

[1] Other counties include Columbia and Yamhill in Oregon and Clark in Washington

[2] All were low-income census tracts: six in Marion County (109.98, 110.94, 110.95, 110.96, 110.97, and 111.98) four in Multnomah County (44.99, 72.99, 106.98, and 107.98)

Oregon's economy is operating at high capacity in the Portland metro area. Seasonally adjusted unemployment rates for the twelve-month period ending December 31**,** 1997 for the Portland-Vancouver PMSA was 4 percent[3] while unemployment figures for the initial seven months of 1998 reflected an unemployment rate of 4.1 percent.[4]

Housing markets are strong, and population continues to grow, mostly due to in-migration. Oregon is considered an attractive job market for residents as the restructuring of the state's economy from timber to high technology has drawn a number of industries into its cities. Additionally, Oregon's high quality of life afforded by clean air and water, outdoor activities and open spaces, is a contributing factor to the up-ward trends in migration.

Portland is the center of Oregon's high tech industry, with more than 1,200 high technology firms and 88 percent[5] of the state's high tech employment. Its high tech community includes research and development operations as well as manufacturing with specialities such as silicon products, semi-conductors and electronics equipment. The area has seen a proliferation of international firms, including Epson, Fujitsu and Oki Electric, with Intel Corporation, Tektronix, Inc., Fred Meyer, Inc. and U.S. Bancorp, as some of the largest private sector employers.

Portland's population for 1997 was 508,500.[6] The city experienced a 15 percent growth in population, over a six year period, from 1990 to 1996. 1996 population statistics for the state of Oregon reflect a figure of 3,181,000.[7] Although the bank's assessment area comprises only approximately 11 percent of the state's thirty-six counties, these counties are the most populous encompassing 1,588,500[8] or 50 percent of the state's inhabitants.

As previously noted, housing markets are strong with demand for housing escalating as cities endeavor to accommodate the growing population. According to a community contact, this population growth has caused a boom in real estate prices in Portland. A number of senior citizens are being displaced from their residences especially in the north and northeast sections of the city as they are being priced out of the market by middle and upper-income individuals. The contact also cited a need for affordable housing loans in this area as well as rehabilitation loans to enable the senior citizen homeowners to maintain their properties in satisfactory condition. Local realtors indicated that housing prices for single family homes in this area range from $110,000 to $120,000. These figures appear to be comparable to 1997 median prices ranging from $102,292 to $129,650.[9] A comparative analysis of the 1997 median family income of $46,300 for the Portland-Vancouver PMSA to a housing value of $129,650, further evidence the need for affordable housing.

[3] Source: Bureau of Labor Statistics
[4] Source: State of Oregon, Employment Department
[5] Source: Oregon Department of Human Resources, Employment Division
[6] Source: Center for Population Research and Census and Portland State University; 1997 population from July 1, 1997 estimate
[7] Source: 1997-98 Oregon Blue Book
[8] Refer to footnote 7
[9] Source: Realtors Multiple Listing Service (MLS), March 1998. 1997 median prices were calculated using MLS reports for entire 1997

The real estate construction industry, fueled by the growth in population, is also booming in the Portland-Vancouver PMSA. In 1995 and 1996 combined, 37,365[10] new residential housing permits were issued with the majority (68 percent) being issued for single-family units. Despite the increase in construction, the population growth has affected the demand for housing, not only in the immediate county of Multnomah but also in the surrounding counties of Clackamus, Washington and Marion.

Besides housing needs, the community contact also cited a need for small business loans, most notably start-up financing for business owners operating in north and northeast Portland. An analysis of businesses operating in the bank's assessment area noted that approximately 88 percent[11] of the 26,034 businesses are small businesses, with gross annual revenues equal to, or less than $1 million. Additionally, 22 percent of the small businesses are located in the north and northeast Portland area, where a majority of the city's low- and moderate-income census tracts are located.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

SCOPE OF CRA ASSESSMENT

Examiners evaluated American Pacific Bank's performance under the Community Reinvestment Act based upon four of the five performance criteria for small banks. These include loan volume in comparison to deposits (Loan-to-Deposit Ratio), lending inside and outside the assessment area (Lending in Assessment Area), the distribution of lending to borrowers with different income levels and to businesses of different sizes (Lending by Borrower Income and Business Revenue), and lending dispersion throughout the census tracts or geographies within the assessment area (Geographic Distribution of Loans). The bank's responsiveness to consumer complaints was not evaluated because no CRA-related complaints were received since the previous examination.

To evaluate the bank's performance, examiners reviewed a sample of the bank's primary product types. A total of 120 loans were reviewed. The loans were extended during the period beginning October 1, 1997 through July 31, 1998, and consisted of 26 small business, 40 residential real estate, and 54 construction and land development loans were reviewed. For the purpose of this examination, the latter product type was split into consumer and business categories: construction loans for consumer purposes and construction loans to private real estate developers.

The initial assessment considered the entire loan sample to determine the volume of lending within the bank's assessment area. Only those loans extended inside the bank's assessment area were used to evaluate the geographic distribution of lending. Examiners collected income data and business revenues of the loans extended inside the assessment area to evaluate the bank's lending by borrower income and business revenue. Examiners evaluated the bank's record of

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[10] Source: U.S. Bureau of Census
[11] Source: 1996 Dun and Bradstreet (D & B) data for American Pacific Bank's assessment area

meeting the credit needs of its defined community, by utilizing only those loans extended inside the bank's assessment area.

LOAN-TO-DEPOSIT RATIO

American Pacific Bank's loan-to-deposit ratio meets standards for satisfactory performance. The analysis supporting this conclusion consisted of an evaluation of the lending volume in comparison to the bank's deposit base. An average loan-to-deposit ratio was derived by using the bank's net loans measured against its deposits, averaged over time, with the results evaluated against the characteristics of the bank's assessment area.

Three similarly-situated peer banks (peer group) were selected for comparison in determining the reasonableness of the bank's loan-to-deposit ratio. The peer group's business focus, portfolio composition, geographic location and asset size were key criteria since the bank is operating in a competitive environment in a rapidly growing city.

Based on financial data obtained from the filed Consolidated Reports of Condition, the following table summarizes the bank and the peer group's average loan-to-deposit ratios for the past four quarters, September 30, 1997 through June 30, 1998:

	American Pacific Bank	**Peer 1**	**Peer 2**	**Peer 3**
LTD Ratio	78.7%	73.1%	83.6%	86.7%

As the table reflects, American Pacific Bank's average loan-to-deposit ratio of 78.7 percent for the past four quarters is in line with peer banks individually, and is comparable to the average for the peer group at 80.5 percent. The ratio also reflects improvement over its ratio of 70.7 percent at the previous examination, which is due in part to overall growth in loans particularly commercial, construction and permanent real estate financing.

Since the previous examination, the continued steady increase in the loan portfolio is consistent with the bank's financial resources as well as management's internal goal.

LENDING IN ASSESSMENT AREA

American Pacific Bank's penetration in its assessment area is satisfactory as the majority of its credit extensions fall inside its defined market area.

This profile represents improvement since the previous examination at which time the local market penetration was deemed to be insufficient. At the previous examination, the bank's lending activity showed a significant concentration of lending in the Portland market which was outside of the then defined assessment area. This activity emanated from real estate and small business loans generated from the bank's LPO in Portland, which was started up in response to opportunities presented by growth in the local economy. As a result of the success of the LPO, measured by consistent loan growth and new deposit opportunities, the bank converted the LPO to a full service office and its headquarters. Although the redesignation of the bank's assessment area resulted in the exclusion of previously served markets, the change was not a measure to avoid low- and moderate-income geographies. On the contrary, the corresponding changes in the assessment area resulted in an expansive market with a significant increase in low- and moderate–income areas compared to the bank's previous service area. As discussed later in the Public Evaluation, increased lending in these markets has been noted.

Performance under this assessment category was based on an analysis of 120 loans, the results of which are depicted in the following table:

Loan Type	Number of Loans		Dollar Amount of Loans	
	Inside (%)	Outside (%)	Inside (%)	Outside (%)
Small Business	92	8	98	2
Real Estate	88	12	89	11
Consumer Construction	89	11	92	8
Commercial Construction[12]	51	49	57	43
Total	80	20	84	16

At the previous examination, 36 percent of the loans sampled were within the bank's assessment area. As the table reflects, the local concentration is more pronounced at this examination with a majority of the bank's loans, based on both number (80 percent), and dollar volume (84 percent), originated within the assessment area. While the concentration profile is generally consistent within three of the four loan categories, the table depicts less of a local presence for the construction loans to developers. This is attributed to the nature of the products, which tends to be developer driven. Moreover, management explained that the lack of land within the bank's assessment area has forced these developers to build on the outskirts of the city which tend to fall outside the bank's defined market area. This coupled with the institution's maintenance of previously established relationships explains the notable percentage outside of the assessment area.

LENDING BY BORROWER INCOME AND BY BUSINESS REVENUE

American Pacific Bank's distribution of loans to borrowers of different income levels and to businesses of different sizes meets standards for satisfactory performance given its financial capacity, resources and business strategy.

Examiners were unable to rate these criteria at the previous examination due to limited borrower income and business revenue data. At this examination sufficient data was available, and the satisfactory performance was driven mainly by strong results in the business category, which included loans to small businesses and real estate developers. Lending results to small businesses and developers favorably compared to the number of these entities within the bank's

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[12] Includes construction financing to residential real estate developers

market. Moreover, the bank's lending shows a notable percentage of loans to small businesses granted in amounts of less than $250,000.

Business Revenue

For an analysis of loans to different businesses, lending to businesses and to private residential real estate developers specializing in construction loans were included in the review. The bank's performance under this criteria was analyzed by reviewing the gross annual revenue information for each of the borrowing entities in the sample of 24 business loans and 23 commercial construction loans. In addition, the number and percentage of the bank's loans were compared to the number and percentage of businesses located within the assessment area.

Of the 24 business loans extended inside the bank's assessment area, 19 were analyzed for this criteria as revenue data was not used in the credit decision for the remaining 5 loans.

The table below depicts the analysis of the 19 loans to businesses and 23 to private developers:

Gross Revenues <$1,000,000						
			Local Small Businesses			
	Loan Sample	**% of Sample**	**#**	**%**	**$**	**%**
Businesses	15	79	22,784	88	4,630,000	87
Private Developers	20	87			6,133,950	89
Gross Revenues >$1,000,000						
			Local Small Businesses			
	#	**%**	**#**	**%**	**$**	**%**
Businesses	4	21	3,250	12	876,900	13
Private Developers	3	13			798,800	11

The results indicate that 79 percent of the bank's business loans are being extended to small businesses,[13] and 87 percent of the commercial loans are to private real estate developers with revenues under $1 million. This compares favorably with D & B data that indicates that 88 percent of the businesses in the bank's assessment area are small businesses. In addition, 6 (40 percent) of the 15 of loans extended to small businesses were made in amounts of $250,000 or less, evidencing an adequate responsiveness to an expressed need for small dollar commercial financing.

American Pacific Bank demonstrates strength in lending to businesses of different sizes, particularly small businesses.

[13] CRA defines small businesses as businesses with gross annual revenues of less than or equal to $1 million

Borrower Income

The bank's real estate and consumer construction loans were evaluated under this category. The assessment was performed by collecting the gross annual income of the borrowers in the sample of 43 loans (35 residential real estate and 8 consumer construction loans), and by comparing it to the families of different income levels residing in the bank's assessment area. The results are depicted in the following table:

Borrower Income Level	Total Families	% of Total Families	Real Estate Loans		Consumer Construction Loans	
			#	%	#	%
Low	56,934	17	0	0	0	0
Moderate	61,343	19	6	17	0	0
Middle	84,245	25	7	20	3	38
Upper	129,028	39	22	63	5	62
Total	331,550	100	35	100	8	100

At initial review, the table suggests apparent voids in real estate lending to low-income families. However, further analysis of the data indicates that the local community characteristics and economic profile evidence that escalating prices have inhibited home ownership for low-income families. Examiners' hypothetical calculations of home affordability for low-income families indicated that home ownership opportunities for this segment of the population is limited. Basically, a low-income family can only afford a loan amount of $50,153[14] which would be insufficient financing given the previously noted median price range of $102,292 - $129,650. Although the home pricing dilemma also impacts the moderate-income sector of the bank's assessment area, the percentage of the bank's real estate loans extended to moderate-income borrowers compares favorably to the distribution of moderate-income families in the assessment area. The bank's responsiveness to moderate-income families as it relates to permanent real estate financing is acceptable. The absence of consumer construction lending in large part reflects the bank's focus on wholesale financing to the developers rather than individual borrowers and, given construction prices, the typical concentration of lending to middle and upper income borrowers seeking newly constructed dwelling.

GEOGRAPHIC DISTRIBUTION OF LOANS

American Pacific Bank's distribution of loans in census tracts of different income levels does not meet standards for satisfactory performance. Although improvement was apparent since the previous examination, lending levels in low- and moderate-income tracts continues to warrant attention.

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[14] Qualification based on the following criteria: interest rate of 6.4 percent, loan term of 30 years, debt to income ratio of 32 percent, property value of $120,000 (realtor information), property taxes of $300 per month, median family income – 50 percent of $46,300 (Portland-Vancouver PMSA data)

The bank's origination activity in middle- and upper-income census tracts continues to predominate the lending profile. While these tracts also make up the majority of the bank's assessment area, the activity in low- and moderate-income tracts does not evidence a reasonable penetration given the number of tracts and the lending opportunities. Competition and limited opportunities mitigate the bank's current performance in low-income tracts; however, the lending profile in moderate-income tracts can be enhanced.

In order to analyze the bank's overall census tract penetration, the lending patterns of the three loan types were reviewed, which included the geographic distribution of the bank's major product line, business loans together with the secondary business product, and commercial construction loans. The results are depicted in the table below.

Overall Census Tract Penetration for All Loan Types

Tract Income Level	Census Tracts in Assessment Area		Total Census Tracts with Activity		Total Assessment Area Penetrated
	#	%	#	%	
Low	8	3	0	0	
Moderate	57	20	7	12	
Middle	158	55	38	24	
Upper	62	22	27	44	
TOTAL	**285**	100	**72**	N / A	**25%**

As the table reflects, the bank penetrated 25 percent of its total assessment area with minimal activity in the low- and moderate-income census tracts compared to the middle- and upper-income census tracts. Examiners, however, noted that the eight low-income census tracts are all new geographies acquired with the change in the bank's assessment area, which has been in effect for only five months.

Small Business and Commercial Construction Loans

Tract Income Level	Census Tracts		D& B data (small businesses)		Small Business Loans		Commercial Construction Loans	
	#	%	#	%	#	%	#	%
Low	**8**	**3**	**328**	**1**	**0**	**0**	**0**	**0**
Moderate	**57**	**20**	**4,756**	**21**	**1**	**4**	**10***	**43**
Middle	158	55	13147	58	16	67	5	22
Upper	62	22	4,651	20	7	29	8	35
Total	285	100	22,784	100	24	100	23	100

*Eight loans were extended in the same census tract, 239.00 in Clackamas county

As reflected by the table, D & B data indicates that 22 percent of the small businesses in the bank's assessment area are located in the low-and moderate-income geographies. However, there were no loans extended in the low-income census tracts and only one business loan in the moderate-income census tracts.

The analysis also disclosed that, similar to the low-income census tracts, 88 percent (50 of 57) of the moderate-income census tracts are relatively new markets for the bank. Nevertheless, these tracts are located in north and northeast Portland, an area which lies in close proximity to and is easily accessible by the bank's Portland headquarters.

As it particularly relates to moderate-income tracts, the table does indicate that 43 percent of the bank's construction lending to developers was in moderate-income tracts. While this activity shows significant improvement from the sole loan noted in moderate-income tracts at the previous examination, the majority of the current lending activity is in one tract. This moderate-income census tract, 239.00, is located quite a distance away to the south of the bank in Clackamas County. Management attributed this lending pattern to the lack of availability of land for commercial construction in the north and northeast sections of the city. While this circumstance mitigates opportunities for new construction, it does not preclude the provision of bank financing to developers involved in rehabilitation projects within the assessment area. The apparent demand for such was expressed by community contacts during the examination.

Real Estate and Consumer Construction Loans

Tract Income Level	**Census Tracts**		**Families in Designated Tracts**		**Real Estate Loans**		**Consumer Construction Loans**	
	#	%	$	%	#	%	#	%
Low	**8**	**3**	**3,939**	**1**	**0**	**0**	**0**	**0**
Moderate	**57**	**20**	**48,292**	**15**	**3**	**9**	**0**	**0**
Middle	158	55	200,968	60	17	49	3	37
Upper	62	22	78,351	24	15	42	5	63
Total	285	100	331,550	100	35	100	8	100

The bank's overall lending pattern to consumers in low- and moderate-income tracts continues to require improvement. As reflected in the preceding table, there was no activity in the low-income census tracts and low penetration in the moderate-income census tracts. As indicated earlier, the low percentage of low-income families in the market coupled with local competition and housing affordability obstacles reduces real estate financing opportunities.

RESPONSE TO COMPLAINTS

Since the previous examination, the bank has not received any complaints relating to its CRA performance. Consequently, the bank's performance under this criteria could not be evaluated.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS

The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations. It has established policies and procedures addressing the fair lending laws and regulations. Additionally, no fair lending violations were cited at this examination and there was no evidence that American Pacific Bank engages in any type of discriminatory practices or discouragement in its lending activities.