



PUBLIC DISCLOSURE

December 15, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Valley National Bank
Charter # 21992**

**843 West Lancaster Boulevard
Lancaster, California 93539**

**Office of the Comptroller of the Currency
Southern California North Field Office
550 North Brand Boulevard, Suite 500
Glendale, California 91203**

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 of **First Valley National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **December 15, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

Institution's CRA Rating

This institution is rated **SATISFACTORY** based on the following conclusions:

- The bank originates a substantial majority of its loans to borrowers within the assessment area.
- The bank originates loans in most of the census tracts in its assessment area.
- The bank originates loans to borrowers of different income levels and businesses of different sizes. The distribution of loans is consistent with the community demographics.
- The bank's average loan-to-deposit ratio is satisfactory.
- The bank complies with the provisions of the antidiscrimination laws and regulations.
- The bank has received no written complaints associated with its CRA performance.

Definitions

Throughout this evaluation, we use the following definitions for the various income levels.

<i>Median Family Income</i> -	The median family income (MFI) determined by the United States Census Bureau every ten years and used to set the income level category of census tracts.
<i>Low-Income</i> -	Incomes that are less than 50 percent of the MFI.
<i>Moderate-Income</i> -	Incomes that are at least 50 percent, but less than 80 percent of the MFI.
<i>Middle-Income</i> -	Incomes that are at least 80 percent, but less than 120 percent of the MFI.
<i>Upper-Income</i> -	Incomes that are 120 percent or more of the MFI.
<i>Small Business</i> -	A business with annual revenues of less than \$1 million.

Description of Institution

First Valley National Bank ("FVNB" or the "bank") is an independent commercial bank headquartered in Lancaster, Los Angeles County, California. Lancaster is a part of the Antelope Valley. The bank, chartered in December 1990, operates two offices: the main office at 843 West Lancaster Boulevard, Lancaster, California, and a full service branch at 520 West Palmdale Boulevard, Palmdale, California. The offices provide various credit and deposit products and services to consumers and small businesses. The Palmdale branch opened in January 1997. The branches have extended operating hours Fridays and Saturdays and are accessible to customers throughout the assessment area. Additionally, the bank operates two Automated Teller Machines (ATMs), one at each branch, which allows customers 24-hour access to their accounts.

The bank has a history of complying with the Community Reinvestment Act. We rated the bank's CRA performance "Satisfactory" at our last evaluation, dated April 8, 1997. FVNB has no financial or legal impediments that will affect its ability to help meet the credit needs of its assessment area. As of the bank's November 30, 1998 general ledger, it has \$38 million in total assets, \$33.8 million in deposits and other liabilities, and \$4.1 million in shareholders' equity.

The bank's loan portfolio, which totals \$15.8 million, primarily comprises commercial real estate loans (41 percent), business loans (32 percent), consumer loans (10 percent), and residential real estate loans (7 percent). FVNB primarily focuses on lending to small businesses, professionals, and real estate developers of commercial property. The bank participates in the Small Business Administration's (SBA) "7(a) Loan Guaranty Program" and "Low Doc" loan programs for small businesses. Competition for loans and deposits remains strong from local branches of large multinational banks and other financial institutions. Antelope Valley Bank, a local competitor with \$204.6 million in total assets, controls 79 percent of the local market for residential mortgage loans.

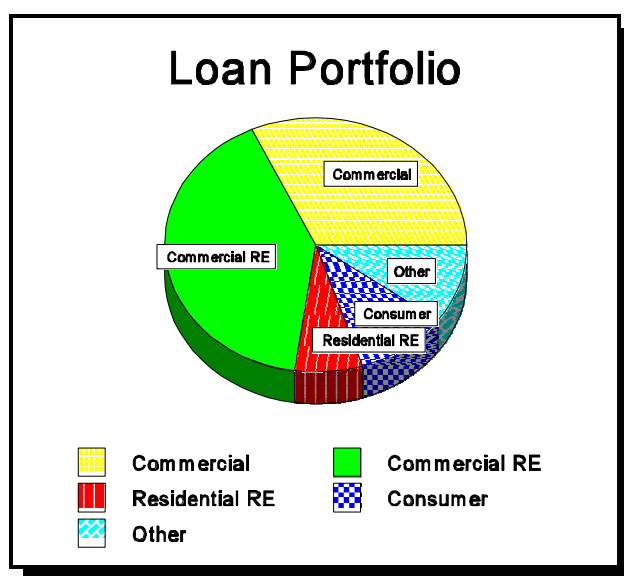


Figure 1

Description of Assessment Area

The bank has one assessment area for CRA purposes. The assessment area primarily comprises the cities of Lancaster and Palmdale in northern Los Angeles County (Metropolitan Statistical Area #4480). Lancaster and Palmdale are two of California's fastest growing cities. The bank's assessment area meets the requirements of the regulation and does not arbitrarily exclude low- and

moderate-income areas. According to the 1990 U.S. Census, the population in the assessment area is 249,443. Of the assessment area's 29 census tracts, one is designated as low-income, one is moderate-income, 18 are middle-income, and nine are upper-income (*see Table 1 for details*). The Housing and Urban Development Agency's (HUD) 1998 Median Family Income estimate for this assessment area is \$49,800. The median-priced home is \$152,555. Because more than 70 percent of the population is in the middle and upper income categories and the overbuilding of rental housing stock during the early 90's, the current demand for affordable housing is low.

ASSESSMENT AREA CHARACTERISTICS				
Income Level	Number of Census Tracts	Percentage of Total Census Tracts	Number of Families	Percentage of Families
Low	1	3%	9,515	15%
Moderate	1	3%	9,165	14%
Middle	18	62%	16,363	26%
Upper	9	31%	28,542	45%
Total	29	100%	63,585	100%

Table 1

Source: Demographic Data - 1990 U.S. Census

The aerospace industry is the largest economic factor in the assessment area because of the proximity to Edwards Air Force Base and Air Force Plant 42, a government-owned facility to produce and test advanced aerospace systems. Other major aerospace companies with significant facilities in the assessment area include Boeing, Lockheed Martin, NASA, and Northrop Grumman (*see Table 2*). The assessment area is also home to 6,272 businesses with 4,968 (79 percent) of them having annual sales of less than \$1 million.

MAJOR EMPLOYERS		
Employer	Type of Firm	Number of Jobs
Edwards Air Force Base	Aerospace Research	12,200
Lockheed Martin	Military/ Aerospace Aircraft	5,500
Northrop Grumman Corp.	Military Aircraft	3,100
The City of Lancaster	City Administration	2,200
NASA	Aircraft/ Aerospace	1,800
Boeing Co.	Military Aircraft/ Aerospace	1,585

Table 2

Source: 1998 Antelope Valley Business Outlook

Assessment Area Needs

As part of our examination, we considered information obtained from a city redevelopment agency, realtors, a community development bank, and local housing services groups. We obtained additional information from the HUD Consolidated Plans for the cities of Lancaster and Palmdale. According to these additional sources of information, the primary lending needs in the assessment area are small business loans, commercial real estate construction loans, and consumer loans other than for housing.

Conclusions with Respect to Performance Criteria

Our evaluation of the bank's lending performance is based upon loan originations between January 1, 1997 and November 30, 1998. We used bank-prepared data. However, we confirmed the accuracy of the data by reviewing a random sample of consumer and commercial loans.

Lending in the Assessment Area

Overall lending levels reflect adequate responsiveness to community credit needs. Since our last evaluation, the bank originated a substantial majority of its consumer and commercial loans to borrowers within the assessment area. Based on information management provided, about 87 percent of the number of all loan originations are to borrowers within the assessment area. *Figure 2* illustrates lending within the assessment area. During the past two years, the bank originated 385 loans totaling \$18.7 million, of which 336 were inside the assessment area.

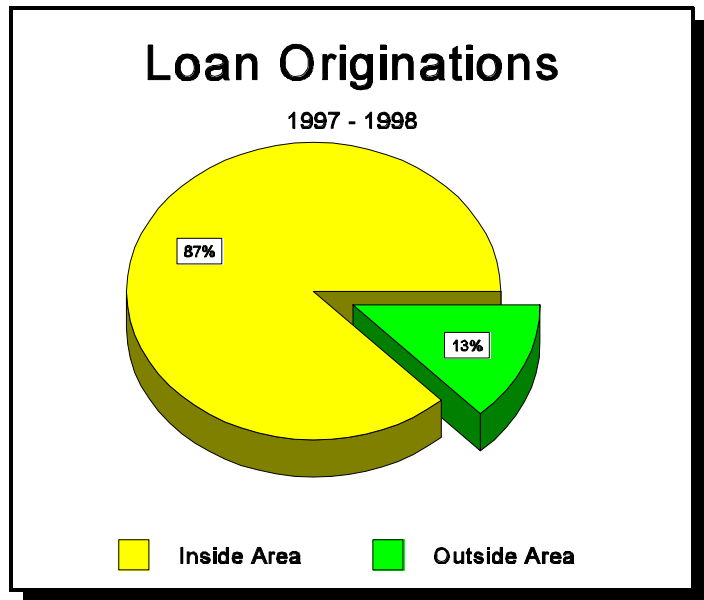


Figure 2

Geographic Distribution of Loans

The geographic distribution of loans within the assessment area is reasonable. Of the total loans the bank originated in 1997 and 1998, 5 percent of the originations were to borrowers residing in low- and moderate-income census tracts. The bank's geographic distribution of loans is similar to the demographic composition of the assessment area (*see Table 3 for details*). The small size of the bank coupled with its limited branch network, prohibits it from serving its entire assessment area. While the CRA does not expect banks to make loans in every census tract in their assessment areas, FVNB did not make loans in six census tracts in 1998 that contains 18 percent of the population. Since the

bank's primary lending focus is business loans, opportunities to lend in those census tracts are limited because the census tracts are mostly residential or rural areas. These census tracts are in the communities of Acton, Littlerock, and portions of Lancaster and Palmdale. None are designated as low- or moderate-income. The assessment area contains branches of several larger financial institutions that meet the credit needs of the community.

ASSESSMENT AREA GEOGRAPHIC DISTRIBUTION						
Income Level of Census Tract	Families		Penetration by Number of Loans		Penetration by Dollar Amount of Loans	
	Number	Percent	Number	Percent	(000's)	Percent
Low	334	1%	2	1%	\$19	1%
Moderate	1,352	2%	13	4%	\$677	4%
Middle	40,690	64%	201	60%	\$9,249	60%
Upper	21,209	33%	118	35%	\$5,459	35%
<i>Total</i>	<i>63,585</i>	<i>100%</i>	<i>336</i>	<i>100%</i>	<i>\$15,404</i>	<i>100%</i>

Table 3

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank does not generate reports that would summarize the lending patterns of the institution based on the borrower's income or the business size. Therefore, to evaluate the bank's lending patterns to borrowers of different incomes, we reviewed a random sample of 18 consumer loans and 30 commercial loans that originated since January 1997.

Lending to Borrowers of Different Incomes

Lending to borrowers of different income levels is satisfactory. Based on our sample, the number and percentage of loans to low- and moderate-income borrowers is similar to the percentage of low- and moderate-income families living in the assessment area. Also, the distribution at other income levels is satisfactory (See Table 4 for details).

DISTRIBUTION OF LOANS TO BORROWERS OF DIFFERENT INCOME LEVELS						
Income Level of Borrower	Families in the Assessment Area		Number of Consumer Loans		Dollar Amount of Consumer Loans	
	Number	Percent	Number	Percent	(000's)	Percent
Low	9,515	15%	1	6%	\$8	3%
Moderate	9,165	15%	4	22%	\$42	15%
Middle	16,363	26%	5	28%	\$60	21%
Upper	28,542	45%	8	44%	\$171	61%
<i>Total</i>	<i>63,585</i>	<i>100%</i>	<i>18</i>	<i>100%</i>	<i>\$281</i>	<i>100%</i>

Table 4

Lending to Businesses of Different Sizes

Lending to businesses of different sizes is satisfactory. Based on our sample of 30 business loans, the bank originated 63 percent of the number of business loans to businesses with annual revenues of less than \$1 million. Additionally, 20 percent of the sampled loans were in amounts of \$250,000 or less.

LOANS TO BUSINESSES OF DIFFERENT SIZES		
Business Revenue	Number of Loans Sampled	Percentage of Loans Sampled
\$1 Million or less	19	63%
Over \$1 Million	11	37%
Total	30	100%

Table 5

Loan-to-Deposit Ratio

The bank's average loan-to-deposit (LTD) ratio meets the standard for satisfactory performance. We calculated the bank's average LTD ratio for the eight quarters ended June 30, 1998. The average LTD ratio during this period is 59 percent. The average LTD ratio for 57 other similarly-sized commercial banks with headquarters in California is 70 percent. As *Figure 3* shows, the bank's LTD ratio has remained stable over the past two years. FVNB's LTD ratio is consistently below the group average. However, the bank regularly sells portions of SBA loans in the secondary market and processes residential mortgage applications for other lenders which are not included in the bank's LTD ratio. Both activities show additional efforts on the bank's part to help meet the credit needs of the assessment area. During 1997 and 1998, the bank sold portions of six SBA loans in the secondary market totaling \$358 thousand. During July 1998, the bank began offering residential mortgage loans. The bank accepts the applications, prepares certain documents, and submits them to an independent mortgage company for approval. Since July 1998, the bank has processed six residential mortgage loans totaling \$1.1 million.

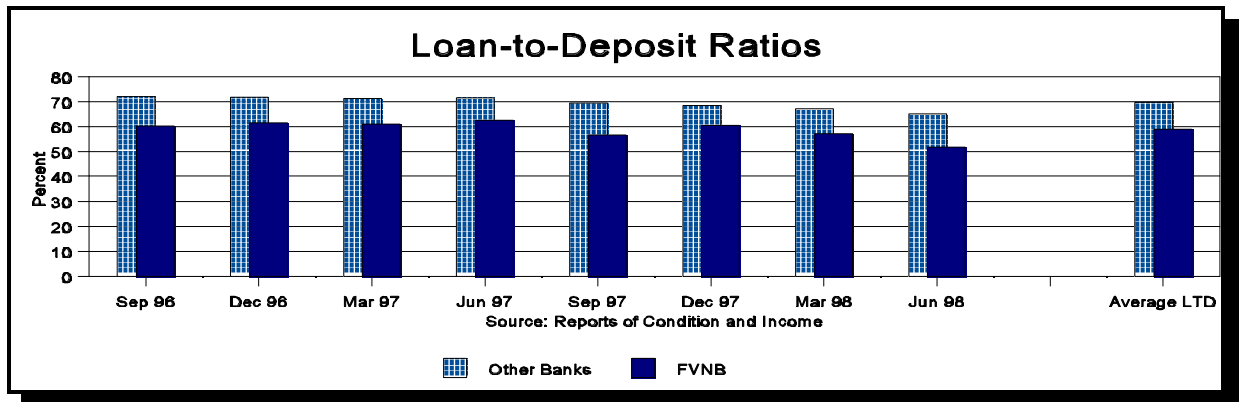


Figure 3

Discriminatory Practices

Federal law requires that banks collect the borrower's race and gender information for residential mortgage loans only. Because the bank does not make residential mortgage loans, we reviewed a random sample of consumer loans that originated in 1998. Using the sample, we evaluated the bank's lending practices for discriminatory or disparate treatment of married and unmarried loan applicants. We did not find any "reason to believe" that disparate treatment exists during the underwriting process for consumer loans. The bank complies with the provisions of the antidiscrimination laws and regulations of the Equal Credit Opportunity Act, Fair Housing Act, and the Home Mortgage Disclosure Act.

Review of Complaints

The bank has not received any written complaints associated with its CRA performance.

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