



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**September 11, 2002**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Pioneer Trust Bank, National Association  
Charter Number 21060**

**109 Commercial Street, NE  
Salem, OR 97301**

**Comptroller of the Currency  
1000 Second Avenue, Suite 3300  
Seattle, WA 98104**

**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.**

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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 CRA performance of **Pioneer Trust Bank N.A.**, prepared by The Office of the Comptroller of the Currency, as of September 11, 2002. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

## INSTITUTION'S CRA RATING

This institution is rated "**Satisfactory**".

The average loan-to-deposit ratio of 48% (59% excluding trust deposits) is low given the bank's size, financial condition, and lending opportunities within in its assessment area.

A majority of loans are in the bank's assessment area.

The distribution of loans reflects adequate penetration among businesses of different sizes and borrowers of different income levels.

The geographic distribution of loans reflects excellent dispersion throughout the assessment area.

There were no public complaints about the bank's CRA performance.

## DESCRIPTION OF INSTITUTION

Pioneer Trust Bank, N.A. (PTB), is a \$238 million community bank incorporated in 1924 as a trust bank. PTB is owned under a one-bank holding company, Pioneer Trust Bank Corporation, and serves the Salem area through its two offices.

PTB is in sound financial condition with total assets of \$238 million as of June 30, 2002. Gross loans total \$96 million, which represents 40% of the bank's total assets. PTB offers two automated teller machines (ATMs) and a full-service trust department. The bank has not opened nor closed any branches since the last examination period.

The bank's primary focus is business lending. Consequently, our conclusions will weigh the evaluation of business lending more heavily than the analysis of mortgage lending. As of June 30, 2002, the loan portfolio consisted of 45% commercial real estate, 14% commercial, 37% residential real estate, and 2% individual consumer loans. Small business lending currently represents 75% of the bank's commercial loan portfolio. No financial or legal impediments exist that affect the bank's ability to meet the credit needs of the bank's assessment area. The following table reflects the bank's loan originations during the period January 1, 2000 to June 30, 2002:

<b>LOAN ORIGINATIONS</b> <b>January 1, 2000 – June 30, 2002</b>		
<b>Loan Type</b>	<b>\$ Volume (000)</b>	<b>% of Portfolio</b>
Agriculture	4,092	2%
Commercial Real Estate	60,495	35%
Commercial	65,125	37%
1-4 Family Residential	38,485	22%
Consumer / Other	6,192	4%
<b>Total Loans:</b>	<b>174,389</b>	<b>100%</b>

Source: Client prepared analysis

The bank offers a full range of business lending products including accounts receivable loans, term equipment loans, and revolving lines of credit. The bank originates mortgage loans and sells some of them in the secondary market.

This office conducted the previous CRA evaluation dated June 15, 1998. The bank received a "Satisfactory" rating.

## DESCRIPTION OF MARION AND POLK COUNTIES

PTB's assessment area consists of 32 census tracts surrounding its main banking office and branch in Salem, Oregon. The assessment area includes parts of Marion and Polk counties, which together comprise the Salem Metropolitan Statistical Area (MSA). Based on 2000 United States (U.S.) Census data, the MSA population has increased 25% since 1990 to 347,214 people. Dun and Bradstreet 2001 business demographic data indicates that there are 9,791 businesses and farms within the bank's assessment area, 87% of which are small businesses and farms. The assessment area meets the requirement of the regulation and does not arbitrarily exclude low- or moderate-income census tracts. The following table shows the number and percentage of census tracts, businesses, and families by income level within the bank's assessment area.

<b>ASSESSMENT AREA COMPOSITION INCOME CHARACTERISTICS OF CENSUS TRACTS, BUSINESSES AND FAMILIES</b>						
<b>Income of Census Tract</b>	<b># and % of Census Tracts</b>		<b># and % of Businesses</b>		<b># and % of Families</b>	
Low Income	0	0%	0	0%	0	0%
Moderate Income	8	25%	2,356	27%	6,407	14%
Middle Income	13	41%	4,578	52%	25,532	55%
Upper Income	10	31%	1,903	22%	14,797	32%
N/A	1	3%	0	0%	0	0%
<b>Total:</b>	<b>32</b>	<b>100%</b>	<b>8,837</b>	<b>100%</b>	<b>46,736</b>	<b>100%</b>

Source: 1990 U.S. Census and 2001 Dun & Bradstreet

Based on 2001 updated Department of Housing and Urban Development (HUD) data, the median family income in the Salem MSA is \$45,600. The 2000 U.S. Census median housing price is \$132,600 in Marion County and \$142,700 in Polk County. Data from the 1990 U.S. Census data indicates that 58% percent of the population in the bank's assessment area lives in owner-occupied housing. Twelve percent of families in the assessment area live or have income below the poverty level.

According to 2002 Salem Chamber of Commerce information, the government is the largest employer in the Salem MSA, followed by services and trade. Manufacturing also provides a number of jobs, with the food products industry leading the manufacturing sector. The Salem MSA unemployment rate was 6.3% in July 2002 according to the Oregon Employment Department (OED), which is down from a high of 9.0% in early 2002. The average unemployment rate in 2001 was 6.3%, compared to 5.4% in 2000. The increasing level of unemployment is mainly due to job losses in manufacturing, the sector hardest hit by the economic downturn and the slowest to recover. An OED publication indicated that the Salem MSA counties have experienced the biggest decline in jobs compared to the state overall.

Agriculture plays an important role in the local area economy. The Salem Chamber of Commerce estimates that the local economic impact of agricultural production is \$1.4 billion annually. More than 150 different cash crops are produced in the Salem area, including wine grapes, mint, and hazelnuts.

Competition from other financial institutions is strong. According to the Salem Chamber of Commerce,

the local area has 14 commercial and savings banks with 48 branches and three credit unions with six branches.

In conjunction with this CRA examination, two community contact interviews were conducted. There were no other contact interviews from other regulatory agencies to review in the bank's assessment area. Community contacts are interviewed to learn about credit opportunities within the community, and how well financial institutions address the credit and service needs of the community. The contacts were representatives of two local homeless outreach shelters. The representatives indicated there is great need in the Salem area and plenty of opportunity for local financial institutions to assist low- and moderate-income individuals.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

Pioneer Trust Bank's loan-to-deposit (LTD) ratio is considerably lower in comparison to competitor banks operating in the same marketplace. The bank's LTD ratio average was 48% for the 12 quarters ending June 30, 2002, and as of December 31, 2001 the LTD ratio was 51%. Included in the deposit totals are approximately \$25 million in trust department deposits. With the exclusion of those trust deposits, the December 31, 2001 LTD was 59%.

We identified seven similarly situated banks for comparison purposes. These peer group banks are located in Oregon, and are similar to PTB in asset size. The peer group average LTD ratio for the previous 12 quarters ending June 30, 2002 was 77%.

The bank has historically been a conservative lender, which has resulted in the low LTD ratio. However, PTB has improved its lending levels. The bank's volume and total number of loans has increased in all lending products since the June 1998 evaluation. As of June 30, 2002, the total number of bank loans was up 15% from the last evaluation. The bank's total loan volume was up 47% over the same time frame.

### **Lending in Assessment Area**

Pioneer Trust Bank originated a substantial majority of its loans in the assessment area.

The bank originated 792 business/farm and Home Mortgage Disclosure Act (HMDA) loans between January 1, 2000 and June 30, 2002. HMDA requires institutions to compile and disclose data about loan applications and about home purchase and home improvement loans originated or purchased during each calendar year.

Sixty business and farm loans were reviewed to validate the accuracy of the loan analysis performed by the bank. Examiners determined that the data was accurate and relied on the bank's analysis for

evaluating business and farm lending performance. The bank's HMDA data was also used to evaluate its performance in mortgage lending.

The following table is a summary of the bank's lending inside and outside of its assessment area during the years 2000 – 2002.

COMMERCIAL, COMMERCIAL REAL ESTATE AND RESIDENTIAL LOANS YEARS 2000 - 2002								
	Inside Assessment Area				Outside Assessment Area			
Loan Product	# of Loans	% of #	\$ (000's) of Loans	% of \$(000)	# of Loans	% of #	\$ (000's) of Loans	% of \$(000)
Commercial	535	87%	54,852	84%	79	13%	10,273	16%
Commercial RE	124	85%	50,506	83%	22	15%	9,989	17%
Residential	132	85%	11,863	81%	24	15%	2,781	19%
<b>Total Loans:</b>	<b>791</b>	<b>86%</b>	<b>117,221</b>	<b>84%</b>	<b>124</b>	<b>14%</b>	<b>23,043</b>	<b>16%</b>

Of the total number of business loans originated, 86% were within the assessment area. Eighty-five percent of the total number of HMDA loans originated were within the assessment area. To receive a "satisfactory" rating for this criterion, at least 50% of the bank's loans need to be originated inside the assessment area, both in number and dollar volume. Consequently, the bank exceeds the standard for satisfactory performance.

### **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

The bank's level of lending to borrowers' different incomes and businesses of different sizes meets the standard for satisfactory performance.

Our sample included 20 commercial loans totaling \$1.8 million, 20 commercial real estate loans totaling \$6.4 million, and all HMDA reportable loans totaling \$11.9 million. The loans were originated between 2000 and 2002, and were within the bank's assessment area.

We compared the bank's lending to businesses in the assessment area to the demographics of small businesses in the assessment area. For this performance evaluation, businesses with annual gross revenues of \$1 million or less are considered small. Dun & Bradstreet demographic data indicates that

92% of businesses in the bank's assessment area are small. The following tables reflect the bank's distribution of commercial and commercial real estate loans by revenue.

<b>DISTRIBUTION OF COMMERCIAL LOANS BY ANNUAL REVENUE YEARS 2000 - 2002</b>					
<b>Revenue Size</b>	<b># of Loans</b>	<b>% of #</b>	<b>\$ (000's) of Loans</b>	<b>% of \$(000)</b>	<b>% of Businesses in AA*</b>
Under \$1,000,000	15	75%	801	44%	<b>92%</b>
Over \$1,000,000	5	25%	1,023	56%	<b>8%</b>
<b>Total Loans:</b>	<b>20</b>	<b>100%</b>	<b>1,824</b>	<b>100%</b>	<b>100%</b>

\*Source: 2001 Dun & Bradstreet

<b>DISTRIBUTION OF COMMERCIAL REAL ESTATE LOANS BY ANNUAL REVENUE YEARS 2000 - 2002</b>					
<b>Revenue Size</b>	<b># of Loans</b>	<b>% of #</b>	<b>\$ (000's) of Loans</b>	<b>% of \$(000)</b>	<b>% of Businesses in AA*</b>
Under \$1,000,000	14	70%	3,238	51%	<b>92%</b>
Over \$1,000,000	6	30%	3,135	49%	<b>8%</b>
<b>Total Loans:</b>	<b>20</b>	<b>100%</b>	<b>6,373</b>	<b>100%</b>	<b>100%</b>

\*Source: 2001 Dun & Bradstreet

The data reflects a distribution of loans to small businesses that is well below the demographics of the assessment area. As documented in the description of the bank's assessment area, competition is strong. In addition, during 2001 the Federal Reserve System lowered the discount rate 11 times, causing the prime rate to drop from 9.50% to 4.75%. This drop caused many of the bank's large commercial customers to refinance their debt to more reasonable interest rate terms, which would affect the income distribution of the bank's portfolio.

The table below shows PTB's performance in lending to borrowers with different income levels.

<b>RESIDENTIAL LOANS BY INCOME LEVEL YEARS 2000 - 2002</b>					
<b>Borrower Income</b>	<b># of Loans</b>	<b>% of #</b>	<b>\$ (000's) of Loans</b>	<b>% of \$(000)</b>	<b>% of Families in AA*</b>
Low Income	6	5%	173	2%	<b>16%</b>
Moderate Income	6	5%	136	1%	<b>19%</b>

Middle Income	20	15%	1,106	9%	<b>24%</b>
Upper Income	78	59%	7,196	61%	<b>41%</b>
Not Available	22	16%	3,252	27%	<b>0%</b>
<b>Total Loans:</b>	<b>132</b>	<b>100%</b>	<b>11,863</b>	<b>100%</b>	<b>100%</b>

\*Based on HUD 2001 Updated Median Family Income

The bank's lending to low- and moderate-income individuals both in number and loan dollar volume is satisfactory, although it is lower than the demographics of the assessment area. The distribution of residential real estate secured loans to borrowers of different incomes is consistent with the bank's business focus and practice of making loans as an accommodation to its business owners and business professional clients. These clients generally have higher income levels.

### Geographic Distribution of Loans

The bank's geographic distribution of loans within the assessment area exceeds the standard for satisfactory performance.

To determine if the distribution among census tracts of various income levels for small businesses meets the demographics of the assessment area, examiners analyzed the bank's lending patterns during the period January 2000 through June 30, 2002. The bank tracks the location of each loan originated and performs geocoding analysis to identify the census tract location of the business or loan collateral. Examiners sampled loan files to validate the accuracy of the bank's data and found the data to be correct. Therefore, examiners relied on bank data and demographic information to evaluate the bank's CRA performance for this criterion.

The tables below detail the bank's commercial and commercial real estate lending with respect to geographic distribution.

<b>COMMERCIAL LOANS' GEOGRAPHIC DISTRIBUTION YEARS 2000-2002</b>					
<b>Income of Tract</b>	<b># of Loans</b>	<b>% of #</b>	<b>\$ (000's) of Loans</b>	<b>% of \$(000)</b>	<b>% of Businesses in AA*</b>
Low Income	0	0%	0	0%	<b>0%</b>
Moderate Income	180	34%	21,262	39%	<b>26%</b>
Middle Income	232	43%	22,858	42%	<b>52%</b>
Upper Income	123	23%	10,732	19%	<b>22%</b>
<b>Total Loans:</b>	<b>535</b>	<b>100%</b>	<b>54,852</b>	<b>100%</b>	<b>100%</b>

\*Source: 2001 Dun & Bradstreet

<b>COMMERCIAL REAL ESTATE LOANS' GEOGRAPHIC DISTRIBUTION YEARS 2000-2002</b>					
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<b>Income of Tract</b>	<b># of Loans</b>	<b>% of #</b>	<b>\$ (000's) of Loans</b>	<b>% of \$(000)</b>	<b>% of Businesses in AA*</b>
Low Income	0	0%	0	0%	<b>0%</b>
Moderate Income	56	45%	20,429	40%	<b>26%</b>
Middle Income	50	40%	19,098	38%	<b>52%</b>
Upper Income	18	15%	10,979	22%	<b>22%</b>
<b>Total Loans:</b>	<b>124</b>	<b>100%</b>	<b>50,506</b>	<b>100%</b>	<b>100%</b>

\*Source: 2001 Dun & Bradstreet

As indicated by the above tables, the bank exceeded the demographics of the area in moderate-income tracts both in number and dollar amount of loans. The Dun & Bradstreet demographic data shows that 26% of businesses in the bank's assessment area are located in moderate-income tracts. The bank's commercial lending reflects that 34% of number and 39% of the dollar amount of loans were originated in moderate-income tracts. In addition, commercial real estate loans exceeded the moderate-income demographics in number and dollar amount of loans with 45% and 40%, respectively.

<b>RESIDENTIAL REAL ESTATE LOANS' GEOGRAPHIC DISTRIBUTION YEARS 2000 - 2002</b>					
<b>Income of Tract</b>	<b># of Loans</b>	<b>% of #</b>	<b>\$ (000's) of Loans</b>	<b>% of \$(000)</b>	<b>% of Owner Occupied Housing</b>
Low Income	0	<b>0%</b>	0	<b>0%</b>	<b>0%</b>
Moderate Income	11	<b>8%</b>	1,093	<b>9%</b>	<b>11%</b>
Middle Income	45	<b>34%</b>	2,845	<b>24%</b>	<b>54%</b>
Upper Income	76	<b>58%</b>	7,925	<b>67%</b>	<b>35%</b>
<b>Total Loans:</b>	<b>132</b>	<b>100%</b>	<b>11,863</b>	<b>100%</b>	<b>100%</b>

We reviewed all the reported HMDA loans originated between 2000 and 2002. Loan penetration is reasonable for moderate-income borrowers compared to the percentage of owner-occupied housing units. Eleven percent of the owner occupied homes in the assessment area are in moderate-income census tracts. The bank originated 8% in number of loans and 9% in dollar volume of its real estate loans in these census tracts. The number of owner-occupied units in moderate-income tracts is similarly low, with a greater percentage of units renter-occupied. This makes the opportunities for loans in these areas lower than in middle- and upper-income tracts where more of the housing units are owner-occupied.

### **Qualified Investments and CD Services**

Pioneer Trust Bank is active in the community. The following paragraphs constitute a partial list of activities that PTB has participated in since the last CRA examination in 1998.

PTB participates in the Consortium of Salem Area Lenders (CONSALL). CONSALL provides funding for community groups that serve low- and moderate-income (LMI) populations in the Salem area by providing long-term affordable housing. PTB management has provided leadership by serving

on committees, and has recently increased the bank's funding commitment to CONSALL.

PTB currently has a business partnership with Bush School. Bush School and PTB have established several goals for the partnership that include financial support for special projects at the school (such as the Attendance Incentive program); increasing community awareness of the school; aiding and assisting in student financial education; and providing an opportunity for employees of PTB to volunteer in the community. To achieve these goals, the bank has funded an attendance incentive program along with other miscellaneous projects, established a volunteer program for PTB employees, secured a bulletin board for the school in the bank's vestibule, and participated in a food and gift drive for the holidays.

Since the 1980's, Co-President Randy Compton has been involved with the Oregon Law Foundation. He currently serves as Treasurer for the organization. The goals of this organization are to support access to justice in Oregon by obtaining and distributing funds to provide legal services to persons of lesser means, promote diversity in the legal profession, and educate the public about the law.

Co-President Mike Compton serves on both the Advisory and Executive Boards of the Easter Seals Children's Guild Therapy Center. Within the center, the Pioneer Trust Bank Room houses essential services such as billing and records maintenance. Co-President Compton is involved with the Easter Seals Sponsor a Child's Therapy Fund which pays for services provided to children who have no insurance and who do not qualify for the Oregon Health Plan.

### **Responses to Complaints**

Pioneer Trust Bank has not received any consumer complaints related to its CRA performance since the last examination.

### **Fair Lending Review**

An analysis of 1998 – 2001 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed June 1998.