



**Comptroller of the Currency
Administrator of National Banks**

SMALL BANK

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PUBLIC DISCLOSURE

JANUARY 19, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**TEMECULA VALLEY BANK N.A.
Charter Number 23109**

**27710 Jefferson Avenue
Temecula, California 92593**

**Comptroller of the Currency
1925 Palomar Oaks Way, Suite 202
Carlsbad, California 92008**

<p>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.</p>

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms; not a strict legal definition.

Community Reinvestment Act (CRA) - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Low-Income - Income levels that are less than 50% of the Median Family Income (MFI).

Moderate-Income - Income levels that are at least 50% and less than 80% of the MFI.

Middle-Income - Income levels that are at least 80% and less than 120% of the MFI.

Upper-Income - Income levels that are 120% or more of the MFI.

Small Business Loans - Loans with an original amount of \$1 million or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

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 **TEMECULA VALLEY BANK, N.A.** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of January 19, 1999. 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.**”

- C Lending in the assessment areas meets the standard for satisfactory performance.
- C The bank’s loans are reasonably distributed among the geographies of all income levels.
- C Temecula Valley Bank N.A.’s loans are reasonably distributed among borrowers of different income levels and businesses of different sizes.
- C The Bank’s loan-to-deposit ratio meets the standard for satisfactory performance.
- C The results of the bank’s Fair Lending examination are satisfactory.

DESCRIPTION OF INSTITUTION:

Temecula Valley Bank, N.A. (TVB) is a \$57 million community bank, which opened in December 1996. TVB's main office is located in the City of Temecula. TVB has two full-service and two messenger branches. One full-service branch and one messenger branch are located in the City of Temecula, Riverside. The other full-service branch and messenger branch are located in the City of Fallbrook, San Diego. The Fallbrook branch opened for business in December 1998. During 1998, TVB established two loan production offices (LPOs), one each in San Bernadino and San Diego Counties. In December 1998, the bank closed the LPO located in San Diego County. TVB operates two Automated Teller Machines (ATMs) and two drive-up windows at each of the full-service branches.

As of December 31, 1998, the bank had \$39 million in loans, comprising 68 percent of total assets. The loan portfolio consists of 76 percent business, 12 percent construction, 6 percent consumer, and 6 percent mortgage loans. In addition to portfolio lending, TVB also originates and sells mortgage loans in the secondary market. As of December 31, 1998, the TVB originated \$11 million in mortgage loans in the assessment areas.

There are no legal or financial impediments to the bank's ability to meet the credit needs of its assessment areas.

This is TVB's first examination under the Community Reinvestment Act.

DESCRIPTION OF ASSESSMENT AREAS:

TVB has two assessment areas. One assessment area is located in Riverside County, which is a part of the Riverside - San Bernadino Metropolitan Statistical Area (MSA). The other assessment area is located in San Diego MSA. The assessment areas meet the requirements of the regulation and do not arbitrarily exclude low- and moderate-income geographies.

Riverside Assessment Area:

This assessment area consists of seven census tracts. There are four middle-income and three upper-income census tracts within this assessment area. There are no low- and moderate-income census tracts. Although there are no low- and moderate-income census tracts, 16 percent and 14 percent of the families in the assessment area are low- and moderate-income, respectively. According to the Department of Housing and Urban Development (HUD), the 1998 median income for the assessment area is \$46,500.

According to the community profile published by the Temecula Valley Economic Development Corporation (EDC), the median sales price for housing in the area is \$151,600. The number of single family residences continues to grow because housing is affordable. The EDC expects a 53 percent growth in housing by the year 2000.

Recent Dun and Bradstreet statistics show that of the 4,327 businesses within the assessment area, 71 percent or 3,062 businesses had sales of less than \$1 million. The same statistics show that there are 154 farms of which 120 (or 80%) reported sales of less than \$1 million. Significant industries are services, retail trade, construction, finance, agriculture, government and wholesale. The community profile published by the Temecula Valley Economic Development Corporation reports that the 13 wineries located in the area are an integral part of the industrial makeup and culture of the Temecula Valley. This assessment area is also home to the Native Americans from the Pechanga Indian Tribe.

Banking in this assessment area is competitive. There are a number of financial institutions, which include community banks, savings and loan associations, credit unions, and branches of major banks.

We considered information from community contacts, which included a Community Development Corporation and a magazine that develops and publishes economic profiles. According to these contacts, the primary credit needs of the assessment area are for small business loans with flexible underwriting, as well as participation in loan pools. There also are needs for bilingual loan officers and judgmental loan decisioning.

San Diego Assessment Area:

This assessment area consists of 79 census tracts. There are one low-income, 20 moderate-income, 40 middle-income and 18 upper-income census tracts. According to HUD, the 1998 median family income for the assessment area is \$50,800.

The EDC reports that as of May 1994, the median housing cost for this area is \$186,700. According to the 1990 census, there were 135,252 one-to-four family housing units in this area.

Recent Dun and Bradstreet statistics show that of the 18,528 businesses within the assessment area, 13,924 or 75 percent had sales of less than \$1 million. The same statistics show 660 farms of which 550 or 83 percent reported sales of less than \$1 million. Significant industries are service, retail trade, finance, construction, manufacturing, wholesale and agriculture. The United States Marine base, Camp Pendleton, occupies an entire moderate-income tract and is one of the largest employers in the assessment area.

Banking in this assessment area is also competitive. There are a number of financial institutions, which include community banks, savings and loan associations, credit unions, and branches of major banks.

We considered information from community contacts, which included a Banker’s Small Business Community Development Corporation, a county reinvestment task force, and a nonprofit housing organization. These contacts identified the need for loan pools, micro loans, multi-family, and affordable housing loans. Also, there are needs for grants, donations, credit counseling and credit seminars.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Our conclusions are based on the bank’s lending activity from December 16, 1996, through December 21, 1998. We used loan data provided by the bank. We sampled 165 loans to confirm the accuracy of the information. We also used the sample to determine the incomes and revenues of borrowers. Our sample included 85 consumer and 80 business loans originated during the review period in the assessment areas.

LENDING IN ASSESSMENT AREAS

TVB’s lending in the assessment areas meets the standard for satisfactory performance. To meet this requirement, the bank must at least originate 50 percent of the loans during the period within the assessment areas. During this review period, the bank originated 80 percent by number and 70 percent by dollar of total loans within the assessment areas. Refer to the table below for details.

Lending Within Assessment Areas		
Total Loans by Number & Dollar	Loans by Number & Dollar Within Assessment Areas	Percent of Loans by Number & Dollar in Assessment Areas
850	683	80%
\$106,708,611	\$74,282,681	70%

GEOGRAPHIC DISTRIBUTION

Riverside Assessment Area:

TVB’s distribution of loans among the geographies is satisfactory. TVB originated loans throughout the assessment area and in geographies of all income levels. Of the loans originated within the assessment area, borrowers in the middle-income geographies received 26 percent (by number) and 20 percent (by dollar). In the upper-income geographies, borrowers received 74 percent (by number) and 80 percent (by dollar) of the loans originated. This distribution is reasonably consistent with area

demographics. There are no low- and moderate-income geographies in the assessment area. Refer to the following table for specific information.

Geographic Distribution of Loans Within Riverside Assessment Area					
Income Characteristic of Census Tracts	Percent of Total Census Tracts	Number of Loans	Percent of Loans by Number	Loan Dollars	Percent of Loans by Dollar
Low	0%	0	0%	\$0	0%
Moderate	0%	0	0%	\$0	0%
Middle	57%	126	26%	\$9,988,235	20%
Upper	43%	354	74%	\$40,132,209	80%
Total	100%	480	100%	\$50,120,444	100%

San Diego Assessment Area:

The bank’s geographic distribution of loans is satisfactory. Except for the one low-income census tract, TVB originated loans in geographies of every income level within the assessment area. The one low-income census is located at the southern-most border of the San Diego MSA. This tract is populated mostly by the families of the marines assigned to Camp Pendleton. The marine base has a credit union, which lends at rates the bank cannot compete against. Loan distribution among the other geographies is consistent with the assessment area demographics. Please refer to the following tables for specific information.

Geographic Distribution of Loans Within San Diego Assessment Area					
Income Characteristic of Census Tracts	Percent of Total Census Tracts	Number of Loans	Percent of Loans by Number	Loan Dollars	Percent of Loans by Dollar
Low	1%	0	0%	\$0	0%
Moderate	25%	56	28%	\$7,418,476	31%
Middle	51%	100	49%	\$9,171,517	38%
Upper	23%	47	23%	\$7,572,244	31%
Total	100%	203	100%	\$24,162,237	100%

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES

Riverside Assessment Area:

The bank’s consumer loans are reasonably distributed among borrowers of different incomes. Of the consumer loans included in the sample, low-income borrowers received 8 percent by dollar and 11 percent by number. Moderate-income borrowers received 14 percent of the loan dollars and 12 percent of the number of loans in the same sample. This distribution is considered reasonable since 16 percent and 14 percent of the borrowers are low- and moderate-income respectively. Middle- and upper-income borrowers received loans consistent with the borrower distribution at those income levels. Refer to the following table for specific information.

Distribution of Consumer Loans to Borrowers of Different Incomes Within the Riverside Assessment Area					
Borrower Income Level	Percent of Borrowers	Loan Dollars	Percent of Dollars	Number of Loans	Percent of Numbers
Low	16%	\$79,911	8%	6	11%
Moderate	14%	\$136,159	14%	7	12%
Middle	23%	\$202,485	21%	11	20%
Upper	47%	\$544,108	57%	32	57%
Total	100%	\$962,663	100%	56	100%

The bank’s business loans are reasonably distributed among businesses of different sizes. Based on our sample, TVB originated 49 percent by dollar and 60 percent by number of the loans to businesses with revenues of less than \$1 million. This distribution compares well to the business demographics. Within this assessment area, 71 percent of the number of businesses reported sales of less than \$1 million. Refer to the following table for specific information.

Distribution of Business Loans by Revenues Within Riverside Assessment Area				
Revenues	Loan Dollars	Percent of Dollars	Number of Loans	Percent of Numbers
<\$100,000	\$1,858,912	18%	16	25%
>\$100,000<\$250,000	\$1,815,670	17%	11	17%
>\$250,000<\$500,000	\$1,139,706	11%	6	9%
>\$500,000<\$1,000,000	\$345,429	3%	6	9%
>\$1,000,000	\$5,236,720	50%	26	40%
Total	\$10,396,437	100%*	65	100%

*Rounded Number

San Diego Assessment Area:

TVB’s consumer loans are reasonably distributed among borrowers of different incomes. Based on our sample, borrowers of all income levels received loans. The loan distribution is consistent with the borrower demographics of the assessment area. Emphasis is placed on the percentage of the number of loans in the distribution. Consumer loans are smaller in size. Refer to the table below for details.

Distribution of Consumer Loans to Borrowers of Different Incomes Within San Diego Assessment Area					
Borrower Income Level	Percent of Borrower	Loan Dollars	Percent of Dollars	Number of Loans	Percent of Numbers
Low	19%	\$25,563	8%	4	17%
Moderate	20%	\$106,503	34%	9	37%
Middle	23%	\$51,634	16%	5	21%
Upper	38%	\$130,579	42%	6	25%
Total	100%	\$314,279	100%	24	100%

The distribution of the bank’s business loans among businesses of different sizes is satisfactory. Based on our sample, TVB originated 88 percent by dollar and 85 percent by number to businesses with

revenues of less than \$1 million. This distribution compares favorably to the assessment area business demographics. Within the assessment area, 75 percent of the businesses reported sales of less than \$1 million. Refer to the following table for specific information.

Distribution of Business Loans by Revenues Within San Diego Assessment Area				
Revenues	Loan Dollars	Percent of Dollars	Number of Loans	Percent of Numbers
<\$100,000	\$549,596	30%	6	30%
>\$100,000<\$250,000	\$130,977	7%	3	15%
>\$250,000<\$500,000	\$295,075	16%	2	10%
>\$500,000<\$1,000,000	\$660,000	35%	6	30%
>\$1,000,000	\$220,000	12%	3	15%
Total	\$1,855,648	100%	20	100%

COMMUNITY DEVELOPMENT LOANS

TVB funded the following community development loans which benefited the Riverside assessment area. These loans demonstrate alternative measures the bank employs to meet the credit needs of the low- and moderate-income borrowers. These loans are also included in the loans discussed in the preceding pages of this performance evaluation.

- C Pechanga Indian Tribe** - TVB funded 13 loans in conjunction with the Tribal Council to borrowers requiring special underwriting considerations. Most of these borrowers needed to be educated in the management of credit. Other borrowers needed help to establish or repair credit. The current balance of these loans is \$85,725.
- C Inland Valley Small Business Development Corporation** - The bank funded three loans totaling \$215,000 in participation with this organization.

LOAN TO DEPOSIT RATIO

TVB's loan-to-deposit (LTD) ratio meets the standard for satisfactory performance. The bank's average LTD ratio for the eight quarters ended September 30, 1998, was 52 percent. The average ratio for three similarly situated banks was 55 percent for the same period. For the purposes of this examination, similarly situated banks are banks of similar asset size located within the assessment areas.

RESPONSE TO WRITTEN COMPLAINTS

TVB has not received any written complaints associated with its performance under the Community Reinvestment Act.

RECORD OF COMPLIANCE WITH ANTI-DISCRIMINATION LAWS

We performed a concurrent fair lending examination. This examination did not reveal any evidence of disparate treatment or discrimination.