



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 3, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Temecula Valley Bank, N.A.
Charter Number 23109**

**27710 Jefferson Avenue, Suite
Temecula, CA 92590**

**Office of the Comptroller of the Currency
Southern California South Field Office
1925 Palomar Oaks Way, Suite 202
Carlsbad, California 92008**

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.

INSTITUTION'S CRA RATING

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

The major factors that support this rating include:

- ❑ The loan-to-deposit ratio average of 84% is reasonable.
- ❑ A majority of loans are in the bank's assessment area.
- ❑ The distribution of loans reflects reasonable penetration among borrowers of different income levels and businesses of different sizes.
- ❑ The geographic distribution of loans reflects adequate dispersion in the assessment area.
- ❑ There were no public complaints about the bank's CRA performance.

DESCRIPTION OF INSTITUTION

Temecula Valley Bank, N.A., a wholly owned subsidiary of Temecula Valley Bancorp, Inc., is a commercial bank serving communities in San Diego and Riverside Counties. The bank operates five full-service offices in the cities of Temecula, Murrieta, Fallbrook, Escondido, and El Cajon, California. They also operate Small Business Administration (SBA) Loan Production Offices (LPOs) in various locations in California, Florida, Georgia, Illinois, and Washington State. The bank has three messenger branches and one night depository branch.

The main office in Temecula and the branch in Fallbrook are both located in moderate-income census tracts. Since the last CRA Performance Evaluation, the bank opened three new offices in Escondido, El Cajon, and Murrieta. The Escondido and El Cajon branches are located in moderate-income census tracts. In addition, management has opened three "messenger branches" (as part of the full-service branches). The messenger branches provide door-to-door service for bank customers. Finally, the bank opened three LPOs, two of which are in moderate-income tracts. The bank expects to open two additional branches by the end of third quarter 2004: one in Rancho Bernardo (San Diego County), and one in Corona (Riverside County). The bank has not closed any branches since the last CRA examination.

Temecula Valley Bank (TVB) offers a broad range of banking services, including personal and business checking accounts. They also offer various types of interest-bearing deposit accounts that include checking, money market, savings, IRA, SEP, and time certificates of deposit. For loan products, the bank offers a wide variety that includes SBA loans, commercial loans and letters of credit, construction loans, residential real estate loans (including VA and FHA), second mortgages, home improvement, and consumer loans.

The bank provides alternate delivery systems for customers to access their accounts. This includes 24-hour telephone banking, Internet banking, night deposit, and ATMs located at four

of the five branches that accept deposits. The one off-site ATM, located at the local mall, also accepts deposits.

There are no financial or legal impediments that hinder the bank's ability to meet the credit needs of its community. As of December 31, 2003, total assets were \$431 million, with net loans comprising \$357 million.

The bank received a "Satisfactory" rating at the prior CRA examination, dated December 7, 1998.

Please refer to the bank's CRA public file for more information about the institution.

DESCRIPTION OF RIVERSIDE AND SAN DIEGO ASSESSMENT AREAS

TVB has two assessment areas: Riverside County, which is a part of the Riverside-San Bernardino Metropolitan Area (MA), and San Diego County, which comprises the San Diego MA. The assessment areas meet the requirements of the regulation and do not arbitrarily exclude low- and moderate-income geographies.

The assessment areas encompass a wide range of industrial, commercial, agricultural concerns, and large residential populations. The total population of the combined assessment areas as of the 2000 U.S. Census is 4,359,220.

Banking in these assessment areas is competitive. There are numerous financial institutions in both areas, including community banks, savings and loan associations, credit unions, and branches of major banks.

Description of the Riverside Assessment Area:

This assessment area (AA) consists of all census tracts in the County of Riverside. TVB operates two branches in this area: Murrieta and Temecula. According to the 2000 U.S. Census data, 4% of the assessment area consists of low-income tracts, 28% is moderate-income, 41% is middle-income, and 27% is upper-income.

The closest moderate-income tract to the Murrieta and Temecula branches is 20 miles away. The closest low-income census tract is more than 20 miles away. Information obtained from the Department of Housing and Urban Development (HUD) indicates that the 2003 median income for the AA is \$51,000.

Temecula and Murrieta are among the fastest growing and more prosperous communities in the area. For example, Temecula, Murrieta, and Corona ranked in the top four locations for new home sales between January and June of 2002. Between 1990 and 2000, the city's housing stock grew by 8,440 units to 19,099. Of these, 70.3% were owner-occupied and only 25.5% were rental units. The strong housing market cut vacancies from 14.3% in 1990 to 4.2% in 2000.

Employment opportunities continue to increase within the Riverside County assessment area, primarily in the City of Temecula, due to the migration of firms and people to the Inland Empire from the Southland's coastal counties. The migration is occurring because the density of land development in San Diego, Orange, and Los Angeles counties has created a shortage of manufacturing and housing space, and increased space cost.

Significant industries include services, retail trade, construction, finance, agriculture, government, and wholesale trade. 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. The area is also home to the Pechanga Indian Tribe that operates a major local resort and casino.

In conjunction with this CRA examination, we interviewed representatives from a county economic development agency located in the Riverside-San Bernardino MA. We conducted this interview to learn about credit opportunities in the area and how well financial institutions address credit and service needs. The agency we contacted indicated the need for affordable housing, small business financing, and small business education. One representative stated that poor money management often prevents small businesses from obtaining credit. Financial institutions can address this by assisting the agency with conducting workshops targeted for small business, such as financial statement preparation, establishing good credit, and workforce training and retention.

Description of the San Diego Assessment Area:

This AA consists of all census tracts in San Diego County. TVB operates three branches in this assessment area, which are located in the cities of El Cajon, Escondido, and Fallbrook. According to the 2000 U.S. Census data, 8% of the assessment area consists of low-income tracts, 22% is moderate-income, 38% is middle-income, and 32% is upper-income. The area population of 2,813,833 represents a 13% increase over the 1990 Census data. The San Diego Regional Planning Agency projects another 38% in population growth over the next 10 years. According to the Department of Housing and Urban Development (HUD), the 2003 median income for the AA is \$59,900.

The most heavily populated areas of San Diego County are located along the Pacific coast where jobs are concentrated in the military, biotechnology, commercial, international trade, tourism, and professional services. Inland areas have more of an agricultural presence.

Housing costs have risen over the last few years from increased demand and improvement in the area's economy. After a drop in housing prices during the early- to mid- 1990s, prices began to rise to a median price of \$230,000 for a single-family home. There are currently 1,040,149 housing units in the county, of which 551,461 (55%) are owner-occupied. Rental housing costs have also begun to rise after the expiration of subsidies and benefits aimed at luring tenants to all levels of housing during the earlier recession years. Rents rose by 30% from the mid-1990s to the present. Currently, there is a housing shortage for all income groups, which has impacted low- and moderate-income residents most acutely.

We contacted a representative from the Faith Based Community Development Corporation (FBCDC) to determine primary credit and services needs in the San Diego area. Given the high cost of housing in San Diego County, the FBCDC representative identified the need for a housing trust fund to assist prospective low- and moderate-income homeowners. In addition, the FBCDC identified the need for homebuyer education and financial literacy, which is the organization's primary focus.

Please refer to the bank's CRA public file for more information about the assessment areas.

DETERMINATION OF PRIMARY LOAN PRODUCTS

Table 1 reflects the bank's loan portfolio by number and dollar volume.

Table 1

Temecula Valley Bank, N.A. Loan Portfolio Composition as of March 31, 2004				
Loan Type	Number	Percentage	Dollar (000)*	Percentage
Commercial	577	59%	254,046	44%
Residential Real Estate	277	28%	287,412	50%
Consumer	86	9%	1,900	<1%
Other	42	4%	36,430	6%
Total	982	100%	579,788	100%

*Reflects total commitment amount.

Commercial and residential real estate loans are the bank's primary loan products. As such, we analyzed a random sample of commercial loans and all Home Mortgage Disclosure Act (HMDA)¹ reportable real estate loans for this performance evaluation. We analyzed loans originated between January 1, 1999 and December 31, 2003.

We compared loans the bank originated between 1999 through 2002 to the 1990 U.S. Census data, and we compared loans originated in 2003 to the 2000 U.S. Census data. We used separate census data because the 2000 census data changed boundaries and income levels of many existing census tracts, deleted some census tracts, and created many new ones.

¹ HMDA requires that certain mortgage lenders that do business or have banking offices in metropolitan areas file annual summary reports of their mortgage lending activity. The reports include loans originated for home purchase, refinance, home improvement, and multi-family.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

The bank's loan-to-deposit (LTD) ratio demonstrates a willingness to lend. The level of lending is reasonable given the bank's size, area credit needs, and the competitive banking market. We analyzed the bank's quarterly LTD ratio from March 1999 through December 2003. During this period, the LTD ratio ranged from a low of 67% to a high of 100%, with an average of 84%. We compared the bank's average ratio to that of eight peer banks of comparable asset size that operate in the same assessment areas. The peer group's quarterly LTD ratio over the same time period averaged 80%. The bank's average ratio is consistent with the peer group average and meets the standard for satisfactory performance.

LENDING IN THE ASSESSMENT AREA

The bank originated a majority of its loans within its defined assessment areas. See Table 2. For this performance criterion, we randomly sampled 40 commercial loans and all HMDA real estate loans originated during the evaluation period.

Lending in both assessment areas:

Table 2

Temecula Valley Bank Lending in Riverside and San Diego Assessment Areas*									
Loan Type	Number of Loans				Dollars of Loans				
	Inside		Outside		Inside		Outside		
	#	%	#	%	\$	%	\$	%	
Commercial	23	58%	17	42%	5,070	46%	5,917	54%	
Residential RE	1,403	89%	171	11%	244,322	90%	26,274	10%	
Totals	1,426	88%	188	12%	249,392	89%	32,191	11%	

*Source: HMDA reportable loans and random sample of commercial loans.

Table 2 indicates the bank originated 88% of the number and 89% of the dollar volume of loans within the defined assessment areas. Consequently, the bank's record of lending within the assessment area meets the standard for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

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

Our analysis included a random sample of 30 commercial loans, as well as all HMDA reportable loans (residential real estate), originated in each assessment area. As noted above, we selected these loan products for review because they are the bank's primary product lines.

Lending to Residential Real Estate Borrowers of Different Income Levels

Tables 3 and 4 reflect the distribution of residential real estate loans by borrower income level compared to the distribution of families by income level for each assessment area.

Table 3

Borrower Distribution of Residential Real Estate Loans Riverside Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families
1999 - 2002 HMDA Data ¹	4%	20%	11%	18%	26%	22%	55%	40%
2003 HMDA Data ²	7%	21%	15%	17%	22%	20%	52%	42%

Demographic Data Source : ¹ 1990 U.S. Census – Income not available for 4% of the HMDA data

² 2000 U.S. Census – Income not available for 4% of the HMDA data

Table 3 indicates that lending to low- and moderate-income (LMI) borrowers does not compare favorably with Riverside area demographics. However, performance is improving over time. In August 2002, the bank opened a loan production office specifically related to real estate tract-lending in Corona, California. As a result, lending performance in area LMI tracts has improved as shown in the data reflected above. (The bank recently expanded the Riverside assessment area to include all of Riverside County incorporating the LPO and in anticipation of the new full service branch to be opened in Corona.)

Table 4

Borrower Distribution of Residential Real Estate Loans San Diego Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families
1999 - 2002 HMDA Data ¹	12%	20%	10%	19%	16%	22%	49%	39%
2003 HMDA Data ²	7%	21%	12%	18%	17%	20%	53%	41%

Demographic Data Source : ¹ 1990 U.S. Census- income information not available for 13% of HMDA data

² 2000 U.S. Census – income information not available for 11% of HMDA data

Table 4 indicates that lending to LMI borrowers does not compare favorably with the San Diego area demographics. Management explained that a primary factor that has hindered real estate lending to these borrowers is the shortage of available affordable housing (as discussed in the “**Description of the Assessment Area**” section of this Performance Evaluation). Because of this shortage, low- and moderate-income borrowers do not readily qualify for home purchase loans.

Since the last CRA evaluation, the bank has significantly increased its presence in San Diego County. In June 2001, the bank expanded its assessment area to include all of San Diego County to accommodate the opening of the Escondido and El Cajon branches. In addition, prior to the end of 2004, the bank will be moving its Escondido Branch Office from a moderate-income tract to a low-income tract. Management anticipates that the new location will create a greater penetration among low-income borrowers.

To help address the overall low penetration to LMI borrowers in both the Riverside and San Diego assessment areas, Temecula Valley Bank currently offers many different loan types with flexible lending criteria. Flexible criteria include such advantages as low down payment, higher qualifying ratios, waiver of cash reserve, and lender-paid closing costs. Additionally, the residential mortgage division offers a program that allows prospective homeowners to lease their home for a period of time during which they can build equity in anticipation of assuming the mortgage.

Based on management’s concerted lending efforts noted above, and given the limited supply of affordable housing, the bank’s lending to low- and moderate-income borrowers meets the standard for satisfactory performance.

Lending to Businesses of Different Sizes

The bank's lending to businesses of different sizes in both assessment areas is reasonable. We compared lending patterns to the demographics of small businesses in each assessment area and found a reasonable distribution. (Small businesses are those with gross revenues of \$1 million or less.)

Tables 5 and 6 reflect the distribution of commercial lending by business revenue size in the Riverside assessment area.

Table 5

Income Distribution of 1999 through 2002 Loans to Businesses Riverside Assessment Area		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	72%	6%
% of Bank Loans in AA by #	40%	60%
% of Bank Loans in AA by \$	70%	30%

** Demographic Data Source: 2002 Dun & Bradstreet - 22% of AA businesses did not report revenue data*

Table 6

Income Distribution of 2003 Loans to Businesses Riverside Assessment Area		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	66%	5%
% of Bank Loans in AA by #	60%	40%
% of Bank Loans in AA by \$	65%	35%

**Demographic Data Source: 2003 Dun & Bradstreet - 29% of AA businesses did not report revenue data*

Tables 7 and 8 reflect the distribution of commercial lending by business revenue size in the San Diego assessment area.

Table 7

Income Distribution of 1999 through 2002 Loans to Businesses San Diego Assessment Area		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	69%	6%
% of Bank Loans in AA by #	73%	27%
% of Bank Loans in AA by \$	83%	17%

** Demographic Data Source: 2002 Dun & Bradstreet - 25% of AA businesses did not report revenue data*

Table 8

Income Distribution of 2003 Loans to Businesses San Diego Assessment Area		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	64%	6%
% of Bank Loans in AA by #	60%	40%
% of Bank Loans in AA by \$	48%	52%

*Demographic Data Source: 2003 Dun & Bradstreet - 30% of AA businesses did not report revenue data

The bank's strong record of SBA lending meets the identified community credit need of providing small business financing. According to *Coleman Reports* from 2001 through 2003, TVB is ranked as one of the "top 50" SBA 7(a) lenders in the nation. The SBA 7(a) program is a federally sponsored program that provides loan guarantees for small businesses that otherwise could not obtain a conventional bank loan. Additionally, TVB was named the nation's largest independent bank SBA lender in 2002 and 2003.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of loans reflects adequate dispersion throughout each assessment area. We used the same sample of commercial and residential real estate loans used in the analysis of "**Lending to Borrowers of Different Incomes and Businesses of Different Sizes.**"

Geographic Distribution of Residential Real Estate Loans

Tables 9 and 10 detail the geographic distribution of the bank's residential real estate lending in the Riverside and San Diego assessment areas.

Table 9

Geographic Distribution Residential Real Estate Loans Riverside Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing
1999 and 2002 Sample ¹	0%	1%	6%	19%	46%	49%	48%	31%
2003 Sample ²	1%	1%	19%	21%	29%	42%	51%	36%

Demographic Data Source: ¹ 1990 U.S. Census ² 2000 U.S. Census

The bank’s lending in low- and moderate-income tracts is below the demographics of the Riverside assessment area. However, as discussed in the “**Description of the Assessment Area**,” the Temecula office is located in a moderate-income tract, but other moderate-income tracts in the area are approximately 20 miles away from the bank location. Since consumers tend to obtain financing closer to home, this lower penetration is reasonably explained.

Table 10

Geographic Distribution of Residential Real Estate Loans								
San Diego Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing
1999 and 2002 Sample ¹	3%	2%	16%	13%	46%	49%	35%	36%
2003 Sample ²	3%	2%	17%	14%	40%	41%	40%	43%

Demographic Data Source: ¹ 1990 U.S. Census ² 2000 U.S. Census

As Table 10 reflects, the bank’s lending in low-income tracts is consistent with the demographics of the San Diego assessment area. Lending in moderate-income tracts compares favorably with the demographics.

Geographic Distribution of Business Loans

Tables 11 and 12 displays the bank’s geographic lending practices based on our sample of business borrowers located in Riverside and San Diego assessment areas.

Table 11

Geographic Distribution of Loans to Businesses								
Riverside Assessment Area								
Census Tract Income Level*	Low		Moderate		Middle		Upper	
	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses
1999 – 2002 Sample	0%	1%	13%	24%	13%	41%	74%	34%
2003 Sample	0%	4%	40%	30%	27%	39%	23%	27%

*Demographic Data Source: 2002 & 2003 Dun and Bradstreet

Table 11 indicates that lending in low-income tracts is below the demographics for the Riverside assessment area. However, when comparing the bank locations in the Riverside assessment area, the closest low-income tract is more than 20 miles away. Due to a competitive banking environment and geographic location, targeting businesses in these tracts is difficult. Lending in moderate-income tracts was below the demographics for 1999-2002 loan originations in San Diego. However, 2003 originations significantly exceeded the demographics as the bank continues to expand its presence throughout San Diego.

Table 12

Geographic Distribution of Loans to Businesses San Diego Assessment Area								
Census Tract Income Level*	Low		Moderate		Middle		Upper	
	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses
1999 - 2002 Sample	0%	4%	53%	23%	33%	43%	14%	30%
2003 Sample	0%	5%	47%	22%	20%	38%	33%	35%

**Demographic Data Source: 2002 & 2003 Dun and Bradstreet*

Table 12 reflects that lending in low-income tracts is below the demographics of the assessment area and lending in the moderate-income tracts is significantly above the demographics. As discussed in the “**Lending to Borrowers of Different Income Levels and Businesses of Different Sizes**” section of this performance evaluation, in 2004 the bank is relocating its Escondido Branch to a low-income tract. Management anticipates the relocation will improve performance, and this indicates a commitment to meeting the needs of low-income tracts in the San Diego area.

COMMUNITY DEVELOPMENT INVESTMENTS AND SERVICES

Investments:

During the evaluation period, the bank donated \$21,000 to various local charities that target their services to low- and moderate-income individuals.

Services:

The bank employs a full-time Community Relations Officer who is highly active in the community and provides organizational support for many community services. These services have focused in various ways on helping to meet the needs of small businesses, an identified community credit need.

For example, the officer has served as President of the Temecula Valley Chamber of Commerce, the Southwest Riverside Economic Development Corp, and has served as Past President, currently serving as a Director of the Murrieta/Temecula Group.

She has been recognized for her community development efforts by the numerous organizations. She is the recipient of The Women of Achievement Athena Award for business, The North County Women of Merit Award, and The 2000 Boy Scouts of America Distinguished Citizens Award. She was twice named Women of the Year for the California State Legislature. She is a member of the Riverside County Integrated Plan, and holds the coveted Community Service Award from the American Banking Association.

Her most recent activity was to help the Temecula Grape Growers Association to obtain over \$22 million in funding for the fight against a disease that has devastated the grape industry in Temecula and other agricultural areas of California.

As President of the Monday Morning Group of Riverside (a group of business leaders that support regional, state and federal efforts that help our communities), the Community Relations Officer travels to Sacramento and Washington DC annually to meet directly with the legislative representatives on behalf of the Inland Empire.

RESPONSE TO COMPLAINTS

Temecula Valley Bank, N.A. has not received any written complaints associated with its performance under the Community Reinvestment Act.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

We found no evidence of illegal discrimination or other illegal credit practices.