



Comptroller of the Currency
Administrator of National Banks

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Public Disclosure

August 14, 1997

Community Reinvestment Act Performance Evaluation

**Valley Merchants Bank, N.A.
Charter Number 22078
800 East Florida Avenue
Hemet, California 92546**

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.

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 **Valley Merchants Bank, N.A.** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of August 14, 1997. 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.**"

- During 1996, 82% of loans originated were to borrowers within the bank's assessment area.
- Loans are reasonably distributed among borrowers of different income levels and businesses of different sizes.
- Loans are sufficiently distributed among the various geographies (census tracts) throughout the assessment area.
- The bank's loan-to-deposit ratio is reasonable but below the peer average.

Description of Institution:

Valley Merchants Bank, N.A. (VMB) is an independently owned, \$36 million financial institution in Hemet, California. The bank has no branches, subsidiaries, or a holding company. In October 1996, the bank opened a loan production office in Anaheim, California. Apart from its size, VMB has the ability to meet the credit needs within its assessment area. The bank is “well-capitalized” according to Prompt Corrective Action definitions contained in the FDIC Improvement Act. VMB’s previous CRA performance was satisfactory.

VMB extends credit primarily to businesses, but it has available a range of consumer loan products. The bank’s loan portfolio is distributed between business loans (82%) and consumer loans (18%).

Description of Assessment Area:

VMB is located in the Metropolitan Statistical Area of Riverside County. The bank designated nine census tracts surrounding the bank as its assessment area. The assessment area includes the cities of Hemet and San Jacinto. There are seven moderate-income tracts and two middle-income tracts. There are no low-income tracts in, or bordering, the assessment area. The 1990 U.S. Census median family income for the area is \$37,274. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The local community has a population of about 95,000. The local economy is based on trade, service, agriculture, and manufacturing. Hemet is well known as a retirement community, and much of the economy is geared to the needs of a large population of retired citizens. Hemet is home to the Metropolitan Water District Eastside Reservoir Project, which will be the largest reservoir in southern California. Competition in the area is strong, with over a dozen other banks and thrifts. Competition is primarily in the form of branches of large out-of-area financial institutions.

As part of this examination, we considered information obtained from the City of Hemet, the Hemet Chamber of Commerce, and a small business development center. Our contacts identified a need in the community for low-dollar loans for small businesses and flexibility in credit underwriting.

Conclusions with Respect to Performance Criteria

For this analysis, we considered loans originated during 1996. We relied on information provided by the bank. We tested the information by sampling five loans.

Lending in assessment area:

The bank's lending in the assessment area meets standards for satisfactory performance. The bank extended 82% of the number of loans originated in 1996 to borrowers within the assessment area. Based on dollar volume, the bank extended 55% of loan originations within the assessment area.

Total Loans	Within Assessment Area	Percent Within Area
193	158	82%
\$12,461,248	\$6,844,671	55%

Lending to borrowers of different incomes and businesses of different sizes:

VMB's loans are reasonably distributed among borrowers of various income levels and businesses of different sizes within the assessment area. VMB is primarily a business bank, but it has a range of consumer products available. In 1996, the bank funded 82 consumer loans. Loans were reasonably distributed among the four income categories. The distribution is consistent with the income characteristics of the assessment area. Refer to the following chart for more details.

Income Designation of the Borrower	Percent of Families in the Assessment Area	Number of Loans Originated	Percent of Loans Originated
Low	29%	19	23%
Moderate	25%	17	21%
Middle	23%	18	22%
Upper	23%	28	34%
Total	100%	82	100%

VMB made 74 business loans during 1996. The average loan size was \$92,000. Of the total number of loans, 89% were to businesses reporting revenues less than \$1 million. Refer to the following chart for more details.

	Number of Loans Originated	Percent of Loans Originated
Loans to Small Businesses (Revenues < \$1 million)	66	89%
Loans to Large Businesses (Revenues > \$1 million)	8	11%
Total Loans	74	100%

In 1996, the bank made a \$20,000 investment in the Inland Empire Lenders Community Development Corporation (IELCDC). The investment included \$15,000 in a loan pool fund. The IELCDC was organized in 1996 and received its lenders license in 1997. The IELCDC will target small business loans to minority- and women-owned business and to companies in low- to moderate-income areas.

Geographic distribution of loans:

In 1996, VMB's loans were sufficiently dispersed among the various geographies (census tracts) throughout the assessment area. Refer to the following chart for more details.

Income Characteristic of Census Tract	Percent of Census Tracts in Assessment Area	Number of Loans Originated	Percent of Loans Originated
Low	0%	0	0%
Moderate	78%	114	72%
Middle	22%	44	28%
Upper	0%	0	0%
Total	100%	158	100%

Loan to deposit ratio:

VMB's loan to deposit ratio meets the standard for satisfactory performance. The bank's average ratio for the eight quarters ending March 31, 1997, is 56%. The bank's average ratio is reasonable but below the peer bank average ratio of 63.7%. The peer banks are five institutions of similar asset size located in Riverside County.

Response to complaints:

VMB has not received complaints associated with its performance under the provisions of the CRA.

Record of compliance with anti-discriminatory laws:

We did not identify any violations of anti-discrimination laws or regulations.