



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

PUBLIC DISCLOSURE

August 6, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Valley Oaks National Bank
Charter Number 22324**

**591 Alamo Pintado Rd.
Solvang, California 93464**

**Comptroller of the Currency
550 North Brand Boulevard, Suite 500
Glendale, CA 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 **Valley Oaks National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **August 6, 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.**”

- A majority of the bank’s loans were originated within the Assessment Area.
- The bank has a satisfactory record of lending to individuals of low-and moderate-income levels and to small businesses with annual revenues of less than \$1 million.
- The bank’s loan-to-deposit ratio meets the standards for satisfactory performance.
- We found no evidence of any discriminatory lending practices.
- The bank received no complaints associated with its CRA performance.

DESCRIPTION OF INSTITUTION:

Valley Oaks National Bank (VONB) was established in February 1992. VONB is a \$44 million community bank located in the city of Solvang, in the Santa Ynez Valley area of Santa Barbara County. The bank has one full service office located in Solvang, California, with an automatic teller machine (ATM) attached and one stand alone ATM located in the nearby El Rancho shopping center. VONB is a full-service bank and offers traditional deposit and loan products. The bank also provides courier services to businesses within their community.

The primary lending focus of VONB is commercial and real estate lending. As of June 30, 1998, the bank had \$33 million in loans outstanding, which comprise 75 percent of total assets. The loan portfolio consists of: 41 percent commercial; 34% real estate secured; and, 25 percent consumer loans. The bank established a mortgage loan department in early 1997. The bank does not fund mortgage loans, but acts as a broker to pre-qualify consumers seeking traditional home loan financing.

DESCRIPTION OF ASSESSMENT AREA:

VONB’s assessment area meets the requirements of the regulation. The assessment area is located within the Santa Barbara County Metropolitan Statistical Area. The assessment area includes the cities of Solvang, Buellton, and the townships of Santa Ynez and Los Olivos. The assessment area contains four census tracts, of which two are middle-income and two are upper-income. There are no low- or moderate-income census tracts within the bank’s assessment area.

The table below provides a breakdown of family income levels within the assessment area based upon the 1990 statewide median family income of \$41,289. The updated 1997 Department of Housing and Urban Development (HUD) median family income has now increased to \$51,400.

FAMILY INCOME LEVELS WITHIN THE ASSESSMENT AREA		
Income Classification	# of Families	% of Families
Low Income	723	13%
Moderate Income	753	14%
Middle Income	1,287	24%
Upper Income	2,694	49%
Total	5,457	100%

The 1990 U.S. Census indicates that the average median housing value for the bank's assessment area is \$304,824. The total housing stock consists of 63 percent owner occupied and 29 percent rental units. The remaining 8 percent are vacant housing units.

Dun and Bradstreet reported a total of 1,425 businesses within the assessment area. Of those businesses, 83 percent had annual revenues of less than \$1million.

Tourism and retail services are the primary industries within the assessment area. The community is experiencing an economic rebound which has improved employment opportunities and stabilized real estate values. The largest employers are local hotels, restaurants, and facilities such as the Santa Ynez Chumash Indian casino and the Alisal guest ranch. The casino is the largest employer in the area.

The bank operates in a competitive environment. There are several branches of commercial banks, regional-sized savings and loans, thrift institutions and other financial service providers. Competitors range from independent community financial institutions to branches of large financial organizations.

As part of this examination, we considered information obtained from two community contacts. Our contacts indicate that the credit needs of the assessment area are for loans to small businesses, loans to consumers, and loans to fund affordable housing projects. Our contacts included a city government agency and an economic development agency.

DEFINITIONS:

Median Family Income (MFI): The median income determined by the United States Census Bureau every ten years and used to determine the income level category of the census tracts.

Low-Income: Income levels that are less than 50 percent of the MFI.

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

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

Upper-Income: Income levels that are 120 percent or more than the MFI.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Our conclusions are based upon a review of all loans originated by the bank from July 1, 1995 through June 30, 1998. We used loan data developed by the bank that listed all loans originated for the same time period. We sampled a combination of 30 consumer and business loan files to confirm the accuracy of the information. Our review showed that bank provided information is reliable.

Lending in the Assessment Area

VONB originated a majority of its loans within the assessment area.

We found that the bank originated 66%, by dollars, and 64%, by number, of loans within its assessment area.

LENDING WITHIN THE ASSESSMENT AREA		
Total Loans By Dollar Amount and Number Originated	Total Loans made Within Their Assessment Area	Percentage
\$43,037,101	\$28,324,469	66%
680	438	64%

Lending to Borrowers of Different Income Levels and Businesses of Different Sizes

The bank's distribution of loans reflects a reasonable penetration of lending to individuals of different income levels and businesses of different sizes.

Our analysis indicates that VONB actively lends to individuals of all income levels. The table illustrates that 32 percent of all consumer and real estate loans originated within the assessment area were to individuals of low- and moderate-income levels. This compares favorably to the 27 percent of low- and moderate-income families living within the AA. The following tables summarizes the results of our sample.

EXTENSIONS OF CREDIT TO INDIVIDUALS OF DIFFERENT INCOME LEVELS			
Income Level of Borrower	# Loans Made	% of Sample	% Families Within the Assessment Area by Income Level
Low	55	15%	13%
Moderate	64	17%	14%
Middle	66	18%	24%
Upper	164	44%	49%
Income info N/A	25	6%	0%
Total	374	100%	100%

The table below shows that all of the business loans originated within the bank's assessment area were to businesses with annual revenues of less than \$1 million.

DISTRIBUTION OF BUSINESS LOANS BY ANNUAL REVENUE		
	Number of Loans Reviewed	Percent of Loans Reviewed
Revenues less than \$1 million	64	100
Revenues of \$1 million and greater	0	0
Total Business Loans:	64	100

Geographic Distribution of Loans

We did not conduct an analysis of the geographic distribution of loans. This analysis would not be meaningful because VONB's assessment area does not include low- or moderate- income census tracts.

Loan-to-Deposit Ratio

VONB's eight quarter average loan-to-deposit ratio compares favorably with other similarly situated institutions given its size, financial condition, and operating environment. VONB's eight quarter average loan-to-deposit ratio for the period ending March 31, 1998 was 72 percent. The eight quarter average loan-to-deposit ratio of four similarly situated banks in the surrounding area was 64 percent.

Record of Compliance with Anti-Discrimination Laws

We did not find evidence of discrimination during our concurrent fair lending examination.

Response To Complaints

No CRA related complaints have been received by VONB.