PUBLIC DISCLOSURE

October 6, 1997

COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION

American Pacific Bank
12-41-0037-0000

300 North Santiam Boulevard
Mill City, Oregon 97360

FEDERAL RESERVE BANK OF SAN FRANCISCO
101 MARKET STREET
SAN FRANCISCO, CALIFORNIA 94105

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 ***American Pacific Bank*** *prepared by the* ***Federal Reserve Bank of San Francisco****, the institution's supervisory agency, as of October 6, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

INSTITUTION'S CRA RATING: This institution is rated ***Needs to Improve***

The institution's overall CRA (Community Reinvestment Act performance is rated **Needs to Improve** based upon a review of its provision of credit to its community. The majority of lending was outside of the bank's assessment area. This, in conjunction with unmet credit needs within the assessment area, weighed heavily in the bank's overall performance assessment.

DESCRIPTION OF INSTITUTION:

American Pacific Bank (APB) is a full service bank that, as of June 30, 1997, had total assets of slightly over $41 million. The bank is headquartered in Mill City, Oregon with a branch office in the city of Aumsville, Oregon. The bank also operates two loan production offices (LPOs), one in Portland and the other in Salem. These LPOs engage primarily in residential real estate construction and permanent financing, and small business lending.

Discussions with management concerning the primary business focus of the bank indicated that the nature of the bank's community (hence referred to as the "assessment area") precludes the bank from emphasizing any particular market niches. The bank offers various commercial and consumer credit products. Commercial loans include: short-term loans for working capital; loans to purchase capital equipment; loans secured by accounts receivable; loans for inventory acquisition; and, loans secured by commercial real estate. Consumer loans offered include: residential real estate construction and permanent loans; home improvement and home equity loans; new and used automobile loans, and unsecured and secured credit cards. The bank also acts as a financial intermediary by brokering fixed-rate mortgage loan requests to other financial institutions in an effort to address this credit need.

A review of the financial data for the period ending June 30, 1997, indicates the following loan portfolio distribution of loan dollars:

Loan Product Classifications	Percent of Loan Portfolio
Business Loans:	
➢ Construction and Land Development	30.7
➢ Commercial, industrial and other business purpose loans	1.9%
➢ Loans secured by non-farm, non-residential real estate	30.3%
Farm Loans:	
➢ Loans to finance agricultural production	.7%
➢ Loans secured by farmland	3.7%
Consumer Loans:	
➢ Loans to individuals for consumer purposes	11.4%
➢ Loans secured by 1-4 family residential properties	21.3%
Total	100%

As demonstrated in the preceding table, the majority of the bank's lending is secured by real estate. Although collateral type, rather than loan purpose, establishes these loan product classifications, the distribution indicates that the substantial majority of the bank's lending is either for business or consumer purposes. Accordingly, the review of the bank's performance under the Community Reinvestment Act (Act) included an analysis of both small business and consumer lending. During the period of review, the bank was operating under no external constraints affecting its ability to affirmatively meet its responsibilities under the Community Reinvestment Act.

DESCRIPTION OF *(Marion, Linn, and Polk Counties):*

American Pacific Bank's assessment area encompasses 49 census tracts; 41 (84%) are located in Marion County. The remaining 8 (16%) are located in the counties of Linn and Polk, which include 5 and 3 census tracts, respectively. The bank's assessment area is located in a region known as the Willamette Valley. Marion County contains Salem, the State Capitol, and is bordered by Polk County to the west and Linn County to the south.

According to the 1990 census data, the assessment area has a population of 249,649, or approximately 9% of the total population of the State of Oregon. The area population consists of 92,807 households and 65,822 households that are families with the following income demographics:

Type of Tract	Number of Tracts	Tract Population	Family Income[1] Range
Low-income	7	0	N/A
Moderate-income	8	27,947	$15,726 to $25,162
Middle-income	23	167,259	$25,162 to $37,742
Upper-income	11	54,443	$37,742 and greater
Total	49	249,649	

Although the assessment area's low-income census tracts have no population, there are low-income families. The family income distribution is 17.3% low-income, 18.8%

[1] The income category is based upon a given percentage of the median family income of the Salem MSA, of which the assessment area is a part. This median income is $31,452. Per the Community Reinvestment Act, low-income is considered less than 50% of the median income, moderate-income 50% to less than 80%, middle-income 80% to less than 120%, and upper-income 120% and greater.

moderate-income, 24% middle-income, and 39.8% upper-income. Moreover, 9% of the families are living below the poverty level.

According to the 1990 U.S. Census Bureau, housing in the assessment area is predominately owner-occupied, 61%, compared to 35% rental units, and 4% vacant units. A substantial majority of the housing is 1-4 family dwellings at 77%, while mobile homes comprise almost 10%. Housing containing 5 or more units constitutes approximately 13%.

One of the bank's loan brokers indicated that the economy of the communities along I-5, such as Aumsville, Salem, Mill Valley and Albany, is strong. Growing manufacturing opportunities, as well as a significant increase in population coming from the Portland area have supported this growth. Statistical data collected by the examiners confirmed that the area is experiencing rapid growth. According to the Oregon Economic Development Department (OEDD), between 1990 and 1996, the population of Linn County has increased almost 10%, from 91,000 to 100,000 people. In that same time, the population of Marion County increased by more than 34,000, or 15% of the population. The OEDD considers the Mid-Willamette Valley region, which surrounds Salem, one of Oregon's most rapidly growing metropolitan areas.

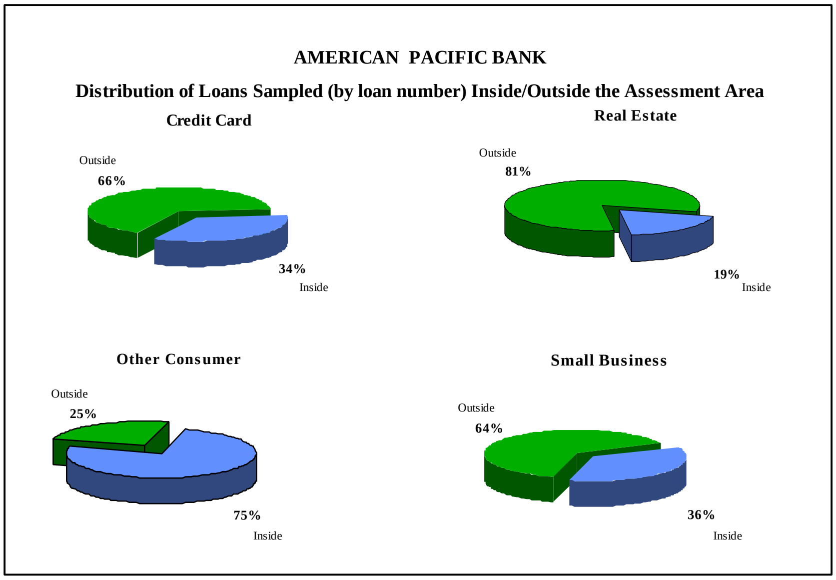
The broker indicated that this increase in population has created the need for additional single family residences, resulting in significant construction of single family residences along I-5. In addition to mortgages, the bank also identified lending opportunities in the community to refinance and make improvements to existing dwellings.

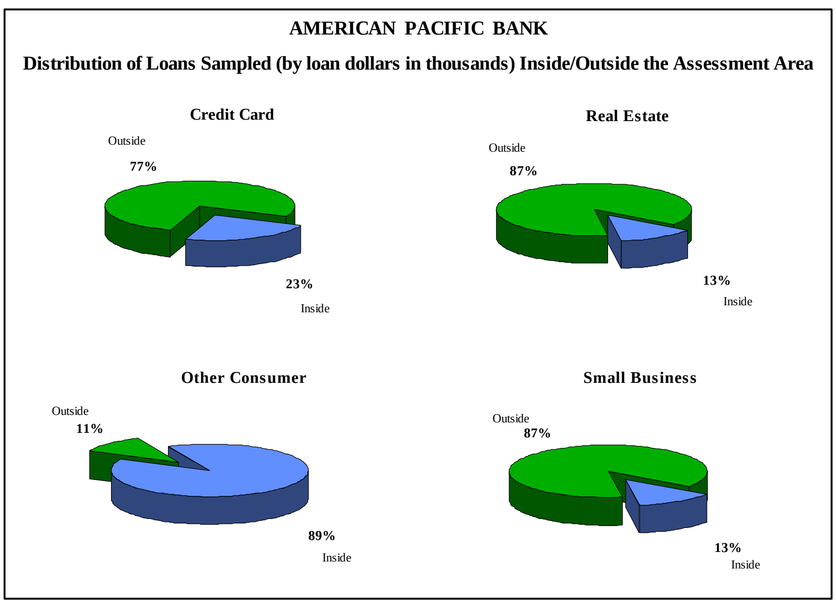
Additional 1990 census data indicates that the labor force for the assessment area comprises approximately 62% of the population, with an unemployment rate of 6.4%, which is comparable to the state's rate of 6.2%. According to the U.S. Bureau of Labor Statistics, the leading employment industries in the Salem MSA are government, services, retail and wholesale trade, and manufacturing. Between 1992 and 1996, employment in the services industry increased over 20%, with the creation of more than 5,000 workers. Retail and Wholesale Trade followed with an increase of 2,800 employees (11%). Manufacturing employment increased by 2,400 (15%) and Construction employment increased by 1,900 (39.6%). These numbers cover the entire Salem MSA; however, a community contact explained that business are starting up and expanding in the rural areas as well as in Portland. Consequently, she stated that there are business credit and economic development needs in the rural areas, which financial institutions are not meeting as effectively as they are in the major metropolitan centers.

LENDING IN ASSESSMENT AREA:

The bank's lending pattern was evaluated by sampling four different loan products: unsecured credit cards, other consumer, residential mortgages, and small business. All new loans extended from August 15, 1996 through September 30, 1997 were reviewed.

In light of the significant increase in residential mortgage loan activity since the previous examination, a review of this loan type was also conducted.





A geographic analysis was performed using a statistical sample from each of the loan products to determine the percentage of loans made within and outside of the bank's assessment area. The analysis revealed that out of 130 loans, only 36% of the loan sample was made within the assessment area, with the majority, or 64%, extended outside the defined area. Taken individually by loan product, the level of lending within the assessment area was: 34% for credit cards, 75% for other consumer loans, 19% for residential mortgages and 36% for small business loans. However, in terms of total loan dollars extended for the sample period, approximately 15%, or $2.1 million was made within the assessment area, while approximately 85%, or $12.4 million was extended outside of the defined area.

The preponderance of lending outside of the assessment area appeared to be a direct result of the lending activity of bank's LPOs in Salem and Portland, which generate the bank's residential mortgage loans. Additionally, 52% of the small business loans were made in the Portland area, which encompasses the counties of Multinomah, Clackamas, and Washington, all outside the bank's assessment area.

Lending outside of the assessment area is permissible, provided credit needs within the assessment area are sufficiently satisfied. As described in the performance context, information from members of the community, bank management, and the examiner's own observations indicated that there are credit needs within the community that are not being met. Examiners determined that there are credit opportunities for residential, small business, and consumer lending within the assessment area, which the bank is capable of meeting.

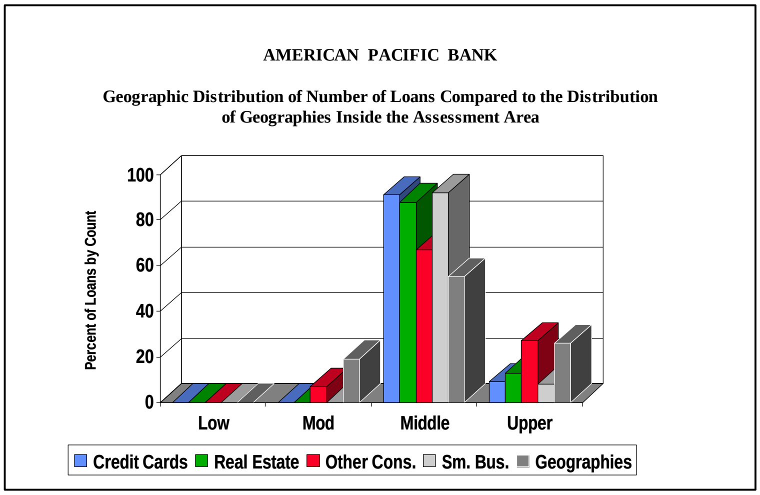
Based on the fact that the majority of the bank's lending is located outside of its assessment area, in conjunction with identified unmet credit needs within the assessment area, the bank's performance for this criterion does not meet the standards for satisfactory performance.

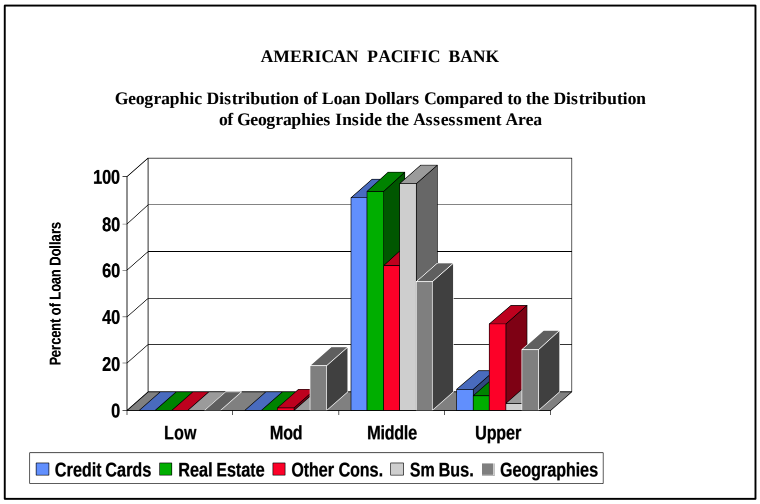
<u>GEOGRAPHIC DISTRIBUTION OF LOANS</u>:

A geographic distribution analysis of the 47 loans extended within the bank's assessment area was conducted. The demographics of the assessment area, identified by the number of low-, moderate-, middle-, and upper-income census tracts, were compared to the number of loans extended within each of those census tracts.

The bank's assessment area consists of 49 census tracts.[2] The remaining 42 census tracts, categorized by income level, included 8 moderate-income (19%), 23 middle-income (55%), and 11 upper-income (26%).

[2] All of the seven designated low-income census tracts located within the bank's assessment area had zero population. Therefore, these tracts were not utilized in the geographic distribution analysis of the bank's lending.





As depicted in the graphs, the bank's percentage of lending in middle-income census tracts compares favorably in all loan categories. Likewise, the penetration levels in upper-income census tracts are considered reasonable. However, lending levels in moderate-income census tracts for all loan categories, both in terms of number and dollar amount, were substantially below the percentage of moderate-income census tracts in the bank's assessment area. The only credit extension made in a moderate-income tract was an "other consumer" loan, which amounted to only 7% of the total number of loans for this category and only 1% of the total dollars extended for this type of credit. No other loans reviewed were extended to moderate-income census tracts located within the bank's assessment area.

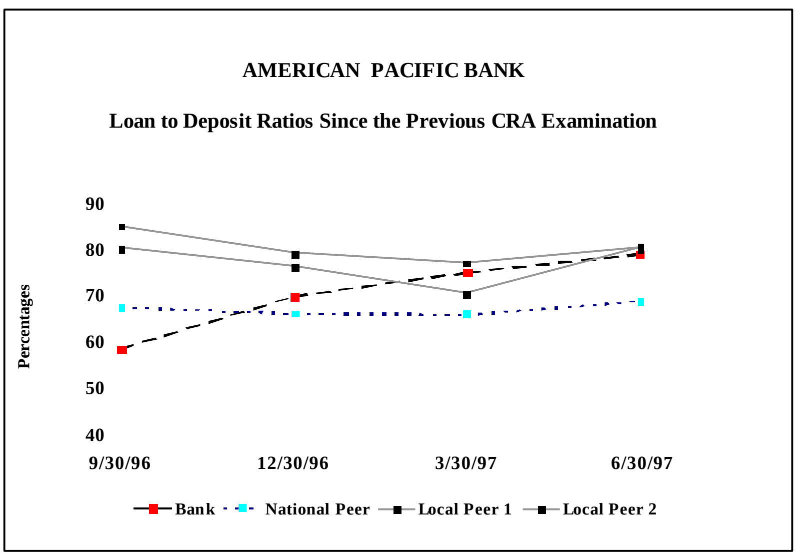
Although the bank's lending was reasonable in middle- and upper-income census tracts, the lending levels in moderate-income tracts, as well as the overall low level of lending within the assessment area, negatively impacts the bank's performance for this criterion. Performance for this criterion, therefore, does not meet the standard for a satisfactory performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

<u>LOAN TO DEPOSIT RATIO</u>:

Quarter Ending	Ratio
September 1996	58.69
December 1996	70.07
March 1997	75.19
June 1997	79.16

For the period under review, the bank's average loan-to-deposit ratio was 70.78%. The chart above illustrates the quarterly fluctuation during the review period. During this time, outstanding deposits and loans steadily increased by approximately \$1.7 million and \$8.6 million, respectively.



As of June 30, 1997, the bank's loan-to-deposit ratio was ranked in the 68th percentile on a national level, indicating that the bank's ratio was higher than the majority of its national peers. Comparison of these ratios with two similarly situated banks in Oregon having assets between \$49 and \$55 million for the same period also revealed ratios that were very similar, with averages ranging from 76.93 to 80.46%.

In light of the fact that the bank's loan-to-deposit ratio ranked in the higher percentiles on a national basis, and resembles the ratios of local peer banks, the bank's performance for this criterion is considered to meet the performance standards for satisfactory performance.

LENDING BY BORROWER INCOME AND BY BUSINESS REVENUE:

Of the 130 loans extended, the borrowers' income or revenue data was available for only 38 of the transactions, which represents only 29% of the loan sample reviewed at this examination. As only 47 loans were extended within the bank's assessment area, the small number of loans with income or revenue data within the assessment area did not provide sufficient data from which to draw meaningful conclusions regarding the bank's lending to borrowers of different incomes or businesses with different revenues. The limited data available did not indicate any disparate patterns. Of the 16 consumer or residential real estate loans with borrower income information, six (38%) were extended to low- or moderate-income borrowers. This closely resembles the 36% of families in the assessment area with low- or moderate-incomes. Of the 11 business loans with revenue information available, ten (91%) had revenues less than $1 million. As a result of the limited data available, however, this criterion was not considered in the evaluation of the bank's overall performance under the CRA during this examination.

RESPONSE TO COMPLAINTS:

The bank did not receive any written complaints regarding its CRA performance. Therefore, the bank's record of taking action in response to such complaints could not be evaluated.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS:

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations such as the Equal Credit Opportunity Act, the Home Mortgage Disclosure Act, and the Fair Housing Act. While there were some violations of Regulation C (Home Mortgage Disclosure Act), they were isolated and technical in nature and did not have a discriminatory effect. Moreover, through interviews with bank lending staff, a review of the bank's loan policies and procedures, and through a comparison of the bank's articulated lending standards with actual applications, it was determined that the bank endeavors to ensure equal treatment of all applicants.