



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 22, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Central Valley Bank, National Association
Charter Number 17257**

**537 West Second
Toppenish, WA 98948**

**Comptroller of the Currency
1000 Second Avenue, Suite 3300
Seattle, WA 98104**

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.

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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 CRA performance of **Central Valley Bank N.A.**, prepared by The Office of the Comptroller of the Currency as of May 22, 2002. 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 “**Outstanding**”.

- The average loan-to-deposit ratio of 78% is satisfactory given the bank's size, financial condition, credit needs, and competitive banking market of the assessment area.
- A substantial majority of loans are in the bank's assessment area.
- The distribution of loans reflects excellent penetration among businesses of different sizes.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area.
- The bank has originated community development loans that revitalize low- and moderate-income geographies.
- There have been no complaints from the public concerning the bank's CRA performance.

DESCRIPTION OF INSTITUTION

Central Valley Bank, N.A. (CVB) is a community bank located in Toppenish, Washington with offices in Yakima, Union Gap, and Wapato. The bank is a subsidiary of the holding company Heritage Financial Corporation. The bank is in sound financial condition. As of March 31, 2002, the bank has total assets of \$84 million, 69% of which are net loans. Since the previous CRA examination, the bank acquired an additional branch in July 1998 and another in May 2000, and has not closed any branches.

CVB is a full-service bank offering loans, deposit accounts, and traditional banking services. CVB's primary focus is business and farm lending, which accounts for 91% of the bank's loan portfolio. The bank participates in the small businesses program sponsored by the Small Business Association (SBA) and the rural economic guarantee program sponsored by the Farm Service Agency (FSA). It bank also offers residential real estate, home improvement, credit card, and consumer loans. There are no financial or legal impediments that affect CVB's ability to meet the credit needs of its assessment area. For this examination we evaluated CRA performance for business and farm loans because HMDA reportable loans only represent 8% of the total business and residential real estate loan originated in 2000 and 2001.

The following table shows the composition of the loan portfolio as of March 31, 2002:

LOAN PORTFOLIO COMPOSITION March 31, 2002		
Loan Type	\$ Volume (000)	% of Portfolio
Agriculture	26,345	45%
Commercial Real Estate	19,123	33%
Commercial	7,513	13%
1-4 Family Residential	4,505	8%
Consumer	799	1%
Total:	58,285	100%

Source: 3/31/02 Call Report

This office conducted the previous CRA evaluation dated April 6, 1998. The bank received a "Satisfactory" rating.

DESCRIPTION OF YAKIMA AND KITTITAS COUNTIES

CVB's assessment area consists of most of Yakima and Kittitas Counties, in the South Central area of Washington State. Based on 2000 census data, the bank's assessment area contains 35 census tracts and has a population of 220 thousand - a 19% increase from the 1990 U.S. Census. There are 10,205 businesses and farms in the assessment area, 93% of which are small businesses and farms. The community is located in a Metropolitan Statistical Area. The assessment area meets the requirements of the regulation, and does not arbitrarily exclude low- and moderate-income geographies. The following table shows the number and percentage of census tracts by income level within the bank's assessment area.

<p>ASSESSMENT AREA COMPOSITION INCOME CHARACTERISTICS OF CENSUS TRACTS, BUSINESSES AND FARMS</p>

Income of Census Tract	# and % of Census Tracts		# and % of Businesses		# and % of Farms	
Low Income	1	3%	725	8%	8	1%
Moderate Income	11	31%	2,211	25%	207	14%
Middle Income	16	46%	3,722	43%	968	67%
Upper Income	7	20%	2,110	24%	254	18%
Total:	35	100.00%	8,768	100%	1,437	100.0%

Source: 1990 U.S. Census and 2001 Dun & Bradstreet

The 2001 updated Department of Housing and Urban Development (HUD) MSA median family income for the assessment area is \$39,700, and the MSA median housing value is \$55,500. Based on 1999 U.S. Census data, there are 47,529 families residing in the assessment area. Of these families, 3% live in low-income tracts, 31% in moderate-income tracts, 46% in middle-income tracts, and 20% in upper-income tracts. Fifty-seven percent of the population has owner-occupied housing. Eighteen percent of the families live or have annual income below the poverty level.

Agriculture is the foundation of the economy in the assessment area. The assessment area consistently ranks at, or near, the top nationally for the production of a variety of crops, including apples, cherries, mint and hops. Yakima County also has the largest inventory of sheep and cattle. Retail services is a distant second for employment in the area, with health care as the largest component. The unemployment rate for Yakima County during the years of 1999 - 2001 increased from 10% in 1999 to 11.3% on average in 2001. The unemployment rate in Kittitas County increased from 5.6% in 1999 to 6.5% in 2001. This trend in unemployment is due to a decline in manufacturing jobs and a slowdown in retail hiring.

Competition from other financial institutions is strong. According to the Yakima County Development Association, Yakima County consists of eight commercial banks with 14 branches, one savings bank with six branches, and 10 credit unions with 13 branches.

In conjunction with this CRA examination, we conducted a community contact interview. In addition, we reviewed two other contact interviews that were conducted by the FDIC in the bank's assessment area. Community contacts are interviewed to learn about credit opportunities within the community, and how well financial institutions address the credit and service needs of the community. The contacts were representatives of two local community development organizations. The organizations indicated the need for affordable housing and small business / farm financing options.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

CVB's level of lending is satisfactory given the bank's size, capacity to lend, and credit needs of the assessment area. We analyzed CVB's loan-to-deposit (LTD) ratio over the last 13 quarters (December 1998 through December 2001). During the 13 quarters, the bank's LTD ratio ranged from a low of 65.34% in December 1998 to a high of 83.76% in June 2001, averaging 77.64%.

We compared CVB's performance under this criterion to six banks located in Central Washington and Northern Oregon that have total assets between \$33 and \$205 million. The banks had an average LTD ratio over the same period of 77.90%. Based on this data, we consider CVB's loan-to-deposit ratio reasonable.

Lending in Assessment Area

The bank's level of lending within its assessment area exceeds the standard for satisfactory performance.

Our analysis of lending in the assessment area was based on a review of the bank's business and farm loans. The bank originated 615 loans during 2000 and 2001. We relied on bank data and demographic information to evaluate the bank's CRA performance. We sampled loan files to validate the accuracy of the bank's data, and found the data to be correct. To receive a "satisfactory" rating for this criterion, at least 50% of the bank's loans need to be originated inside their assessment area, both in number and dollar volume. The following table demonstrates the distribution of business and farm loans originated inside and outside CVB's assessment area.

BUSINESS AND FARM LOANS YEARS 2000 - 2001								
	Inside Assessment Area				Outside Assessment Area			
	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)
Total Loans Reviewed	559	91%	\$81	93%	56	9%	\$6	7%

As demonstrated above, the bank originated approximately 93% of its business and farm loans within the assessment area. The bank disbursed 91% of its lending dollars within the assessment area. Consequently, the bank's lending within the assessment area exceeds the standard for satisfactory performance.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The bank's level of lending to businesses of different sizes exceeds the standard for satisfactory performance.

Our sample included 276 business loans totaling \$34 million, and 295 farm loans totaling \$49 million. The loans were originated between 2000 and 2001, and are within the bank's assessment area.

We compared the bank's lending to businesses and farms in the assessment area to the demographics of small businesses in the assessment area. For this performance evaluation, businesses with annual gross revenues of \$1 million or less are considered small. Dun & Bradstreet demographic data indicates that 93% of the businesses and 87% of the farms in the bank's assessment area are small. The following table reflects the distribution of business loans by revenue.

DISTRIBUTION OF BUSINESS LOANS BY ANNUAL REVENUE YEARS 2000 - 2001					
Revenue Size	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Small Businesses in AA*
Under \$1,000,000	216	78%	21,518	63%	93%
Over \$1,000,000	60	22%	12,732	37%	7%
Total Loan Sample:	276	100%	34,250	100%	100%

*Source: 2001 Dun & Bradstreet

The data above shows that CVB is below the demographics both in number and dollar volume of loans originated. Per discussion with bank management, this is due to the financial structure of the businesses obtaining loans. Our sample included a majority of loans to family businesses. The family businesses include several generations of family members. These family businesses borrow money collectively, so one loan to a family business represents multiple loans to different small businesses. The loans do not qualify as small business loans for statistical purposes, because the aggregate gross annual income of the combined small businesses is too large to be defined as small. The family business loan amounts ranged from \$5 thousand to \$1.4 million, and the median was \$100 thousand.

DISTRIBUTION OF FARM LOANS BY ANNUAL REVENUE YEARS 2000 - 2001					
Revenue Size	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Small Farms in AA*
Under \$1,000,000	275	93%	32,371	66%	87%
Over \$1,000,000	20	7%	16,791	34%	13%
Total Loan Sample:	295	100%	49,162	100%	100%

*Source: 2001 Dun & Bradstreet

Based on the table above, the bank's lending to small farms is above the demographics for number of loans and below demographics for dollar amount. This appears reasonable because loans to small businesses tend to be for a smaller dollar amount and the percentages can vary significantly. As a result, the bank lending practices reflect excellent penetration throughout small businesses and farms in the bank's assessment area.

Geographic Distribution of Loans

The bank's geographic distribution of loans within the assessment area exceeds the standard for satisfactory performance.

To determine if the distribution among census tracts of various income levels for small businesses and farms meets the demographics of the assessment area, we analyzed the same loan sample used in the Lending to Borrowers of Different Income and Businesses of Different Sizes. CVB's assessment area contains 1 low-income tract, 11 moderate-income tracts, 16 middle-income tracts, and 7 upper-income tracts. Based on our total loan sample, we did not identify any areas of low penetration in the bank's lending patterns.

The following table illustrates the geographic distribution of the bank's business lending within its assessment area.

BUSINESS LOANS' GEOGRAPHIC DISTRIBUTION YEARS 2000 - 2001					
Income of Tract	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Small Businesses in AA*
Low Income	15	6%	1,297	4%	8%
Moderate Income	69	25%	11,024	32%	25%
Middle Income	133	48%	16,567	48%	43%
Upper Income	59	21%	5,362	16%	24%
Total Loan Sample:	276	100%	34,250	100.00%	100%

*Source: 2001 Dun & Bradstreet

As indicated in the above table, 31% of the number of loans and 36% of the dollar amount of loans were made in low- and moderate-income tracts. The dollar amount of loans is slightly above the demographic data of 33% of small businesses in low- to moderate-income areas.

The next table illustrates the geographic distribution of the farm loans.

FARM LOANS' GEOGRAPHIC DISTRIBUTION YEARS 2000 - 2001					
Income of Tract	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Small Farms in AA*
Low Income	0	0%	0	0%	1%
Moderate Income	59	20%	14,536	30%	14%
Middle Income	210	71%	30,951	63%	66%
Upper Income	26	9%	3,675	7%	19%
Total Loan Sample:	295	100%	49,162	100%	100%

*Source: 2001 Dun & Bradstreet

The demographic data shows small farms in the bank's assessment area are located primarily in middle- and upper-income geographies. Only 15% of the small farms are located in low- and moderate-income areas. The banks lending to small farms is significantly above the demographics of the area in both number of loans and dollar amount (20% and 30%, respectively).

Qualified Investments and CD Services

CVB developed a loan program to assist individuals who want to start their own farming business. In most cases, they retain their "payday" jobs (i.e., a manager for a large farmer in their area), but need financial assistance to operate a small farm or orchard. This loan is only available through the FSA guaranteed program. The FSA program allows the farmer to obtain a loan for a longer term with a lower down payment. During the years 2000 and 2001, the bank originated 44 of the 72 FSA loans in Yakima County.

In addition, the bank also participates in the SBA 504 Loan Program. The program allows the businesses to obtain up to 90% financing for fixed-asset construction and acquisition for a long-term and a lower rate. The bank originated 17 loans during the years 2000 and 2001 totaling \$1.5 million. These loans created 17 new jobs in Yakima County.

CVB management provides outreach activities to several community non-profit organizations by serving on various boards or committees. For example, CVB is involved with the Yakima County Development Association (YCDA), a non-profit corporation created to enhance the income and employment stability of the local economy. Management provides financial

expertise for community projects directed toward low- to moderate-income tracts and small businesses and farms. According to the president of YCDA, CVB is a strong force in Yakima County.

The bank has originated \$806 thousand in community development (CD) loans since the last performance evaluation, or the equivalent of 13% of the bank's Tier 1 capital. The majority of the CD loans are to community organizations to revitalize low- and moderate-income areas in Yakima County.

Responses to Complaints

CVB has not received any consumer complaints related to its CRA performance since our last examination.

Fair Lending Review

An analysis of 1999 – 2002 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1998.