

PUBLIC DISCLOSURE

September 15, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**MID-VALLEY BANK
Cert # 34892**

**2540 Newberg Highway
Woodburn, Oregon 97071**

**Federal Deposit Insurance Corporation
25 Jessie Street at Ecker Square, Suite 2300
San Francisco, CA 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 performance of **Mid-Valley Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **September 15, 2004**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

Mid-Valley Bank was evaluated using “small bank” procedures. The Community Reinvestment Act defines a small bank as one that had total assets of less than \$250 million as of December 31 of the two prior calendar years. Mid-Valley Bank’s total assets for year-ends 2002 and 2003 were \$68,851,000 and \$77,152,000, respectively.

This evaluation reflects the bank’s CRA performance since the previous evaluation dated December 06, 1999. The evaluation was conducted at the institution’s main office in Woodburn, Oregon. The evaluation relied on records and reports provided by the bank, publicly available loan and financial information, demographic information, and information gathered as part of the examination process, including community contacts.

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The evaluation of Mid-Valley Bank's overall CRA performance was based upon the five following performance criteria:

- Loan-to-Deposit Ratio
- Assessment Area Concentration
- Borrower Profile
- Geographic Distribution
- Response to CRA-related Complaints

The institution's CRA performance depicts a satisfactory level of providing for the credit needs of its assessment area. This rating is supported by the following conclusions:

- The institution's average loan-to-deposit ratio for the preceding 19 quarters stood at 68.9 percent. Considering that the bank was a new bank at the 1999 evaluation, emphasis is placed on the trend and the more recent ratios. Recent performance is consistent with the ratios of other similarly situated institutions and reflects a reasonable responsiveness to the community credit needs.
- The bank originated a majority of its business loans within its assessment area. For 2002 and 2003 combined, the bank originated 85.0 percent of its loans by number and 78.8 percent by dollar volume within its assessment area. In response to deposit growth, the bank has purchased loan participations from outside of its assessment area which adversely impacts these ratios.
- The institution's performance of lending to businesses of different sizes is considered excellent with over 80 percent by number of its business loans granted to small businesses for both calendar years 2002 and 2003.
- The geographic distribution of business loans reflects an excellent dispersion throughout the bank's assessment area.
- There were no CRA-related complaints on file since the previous evaluation.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS

Examiners did not identify any violations of the substantive provisions of the anti-discrimination laws and regulations.

COMMUNITY CONTACT

A community contact with the director of a regional small business development organization was used for this evaluation. The contact stated there remains a need for small businesses to aid in the region's economic recovery. A growing small business base would provide economic diversity for this region.

DESCRIPTION OF INSTITUTION

Mid-Valley Bank is a state chartered institution headquartered in Woodburn, Oregon. The bank operates four branches and one loan production office in Marion and Clackamas Counties.

The June 30, 2004, Report of Condition lists total assets of \$86,983,000. Total loans as of this date were \$59,660,000. Table 1 details the bank's loan distribution as of June 30, 2004.

Table 1

Loan Portfolio Distribution as of June 30, 2004		
Loan Type	Dollar Volume (000)	Percentage of Total Loans
Construction and Land Development	6,647	11.1
Secured by Farmland	2,312	3.9
Revolving Open-end 1-4 Family Residential	157	0.3
Closed-end 1-4 Family Residential First Lien	932	1.6
Closed-end 1-4 Family Residential Junior Lien	0	0.0
Multi-family Residential	5,789	9.7
Commercial Real Estate	17,001	28.5
Total Real Estate Secured	32,838	55.1
Loans to Finance Agricultural Production	10,738	18.0
Commercial and Industrial loans	13,411	22.5
Consumer Credit Cards	0	0.0
Other Consumer Revolving Loans	0	0.0
Closed-end Consumer Loans	2,314	3.9
Obligations of States and Political Subdivisions	494	0.8
Other Loans	76	0.1
Less: Any Unearned Income on Loans	(211)	(0.4)
Total Loans	59,660	100.0

Source: Mid-Valley Bank's June 30, 2004 Report of Condition

Since the previous evaluation, the bank opened two branches and a loan production office. The East Woodburn Branch was opened on June 23, 2003, and the Country Meadows Branch was opened on May 03, 2004. The loan production office opened in Wilsonville on December 15, 2003. The Country Meadows Branch is located in a retirement center and is open two days a week with limited services. Both of the new branches are located in middle-income census tracts. The remaining two branches, West Woodburn Branch and Charbonneau Branch, are located in middle- and upper-income census tracts, respectively. The bank has not closed any branches since the previous evaluation.

There are no regulatory or legal constraints preventing Mid-Valley Bank from helping meet the credit needs of its community. Earnings, capital, and liquidity have been sufficient to support the bank's lending activity.

DESCRIPTION OF ASSESSMENT AREA

CRA requires an institution to identify one or more assessment areas within which regulatory agencies will evaluate the institution's CRA performance. Mid-Valley Bank has defined its assessment area as Salem Metropolitan Statistical Area (MSA) which consists of Marion, Polk and Clackamas Counties and is located in the Portland-Vancouver Primary Metropolitan Statistical Area. The assessment area is in conformance with the requirements of the CRA regulation.

DEMOGRAPHICS

The assessment area was divided into 106 individual census tracts for the 1990 census. A categorization of the 1990 tracts showed 0 as low-income, 12 as moderate-income, 61 as middle-income, 25 as upper-income, and 8 as NA.

For the 2000 census, the assessment area was reapportioned into 125 census tracts. Of these census tracts, 1 is designated low-income, 18 as moderate-income, 70 as middle-income, and 36 as upper-income. In 2003, the median family income for the Salem MSA was \$52,800 and \$53,036 in Clackamas County. The unemployment rate in 2003 was 7.7 percent for the Salem MSA and 7.4 percent in Clackamas County.

Total population for the assessment area was reported as 685,605. This figure reflects growth of 23.1 percent over the 1990 census figure of 556,874. The population distribution for 2000 revealed 0.5 percent residing in low-income tracts, 13.5 percent in moderate-income tracts, 58.4 percent in middle-income tracts, and the remaining 27.6 percent in upper-income tracts.

ECONOMIC CONDITIONS

Marion County serves as host to 38 of the largest state agencies. State government is the largest employer within the Salem MSA with over 13,000 full-time employees. Business firms employing fewer than 20 employees constitute a significant majority of businesses within the Salem MSA at 74.8 percent. Approximately 75 percent of all businesses in the Salem MSA are concentrated within the middle- and upper-income census tracts.

Clackamas County's business climate is marked by strong and growing concentrations of metal fabrication, machinery, distribution, high-tech, and professional service firms. A thriving, large retail base is also located in Clackamas County. In addition, some of Oregon's richest farmland is located in this county.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

SCOPE OF EVALUATION

This evaluation of Mid-Valley Bank's lending performance is based on a review of commercial and commercial real estate loans. These are the bank's two largest loan products and account for 28.5 percent and 22.5 percent, respectively, of the loan portfolio as of June 30, 2004. Loans coded in accordance to the FFIEC's Report of Condition loan classifications as commercial and commercial real estate (business) that originated from January 01, 2002, through December 31, 2003, represented the universe for business loans. The universe of business loans totaled 120 by count and \$22,903,594 by dollar volume.

For purposes of evaluating the bank's performance regarding borrower profile and geographic distribution, only loans originated within Mid-Valley Bank's assessment area were used.

The loan-to-deposit ratio performance analysis utilized the institution's average loan-to-deposit ratio of the 19 calendar quarters dating back to the previous evaluation. The ratios were computed using total net loans (total loans less the allowance for loan and lease losses) and total deposits reported by the institution in its quarterly Report of Condition.

LOAN TO DEPOSIT RATIO

This measurement of performance gauges the extent to which the institution invests depositors' funds back into the community through its lending activity. The bank's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area needs. The institution's average loan-to-deposit ratio based on the 19 quarters dating back to the previous evaluation stands at 68.9 percent. The bank's quarterly loan-to-deposit ratios have ranged from a low of 53.2 percent (December 31, 1999) to a high of 86.9 percent (March 31, 2004). From year-end 1999, the ratio has gradually trended up to the current 2004 levels, which range in the mid- to low 80 percentile. The bank's more recent loan-to-deposit ratios are consistent with the ratios of other similarly situated Oregon institutions.

ASSESSMENT AREA CONCENTRATION

Mid-Valley Bank's lending levels reflect a reasonable responsiveness to its assessment area credit needs. As illustrated in Table 2, the bank originated a majority of its evaluated loans within its assessment area. Specifically, 85.0 percent by number and 78.8 percent by dollar volume of loans reviewed were granted in the assessment area. Several large loan participations purchased, located out of the bank's assessment area, have adversely impacted the dollar volume percentage. These figures are consistent with the ratios of other small commercial banks located in the Pacific Northwest.

Table 2

Distribution of Loans Inside and Outside the Assessment Area										
Loan Category or Type	Number of Loans					Dollar Amount of Loans (000s)				
	Inside Assessment Area		Outside Assessment Area		Total	Inside Assessment Area		Outside Assessment Area		Total
	#	%	#	%		\$	%	\$	%	
Business Loans										
2002	31	88.6	4	11.4	35	6,437	87.0	962	13.0	7,399
2003	71	83.5	14	16.5	85	11,613	74.9	3,891	25.1	15,504
Total	102	85.0	18	15.0	120	18,050	78.8	4,853	21.2	22,903

Source: Commercial and commercial real estate loans originated by Mid-Valley Bank

BORROWER PROFILE

Mid-Valley Bank’s distribution of loans demonstrates an excellent record among businesses of different sizes. Tables 3 and 4 below depict the degree of lending to businesses of different sizes within the assessment area.

For 2002, the bank granted 80.6 percent by count and 77.5 percent by dollar volume to small businesses. For 2003, loan originations to small businesses show a similarly strong performance with 88.7 percent by count and 88.3 percent by dollar volume. Of interest, the institution’s lending by number of loans to very small businesses with gross annual revenue less than \$100,000 was 38.7 percent and 42.3 percent for 2002 and 2003, respectively, significantly exceeding the other stratified revenue categories. According to D&B business demographic information for 2003, 66.1 percent of all businesses located in the bank’s assessment area are small businesses. The bank’s performance based on these ratios exceeded other similarly situated institutions located in the Pacific Northwest.

Table 3

LENDING TO BUSINESSES OF DIFFERENT SIZES – 2002				
Gross Annual Revenue	Number	Number by %	Dollar Volume	Dollar Volume by %
Less than \$100,000	12	38.7	1,250,581	19.4
\$100,000 to \$250,000	4	12.9	1,694,852	26.3
\$250,001 to \$500,000	5	16.1	1,704,266	26.5
\$500,001 to \$750,000	4	12.9	338,636	5.3
\$750,001 to \$1,000,000	0	0.0	0	0.0
Subtotal	25	80.6	4,988,335	77.5
Over \$1,000,000	6	19.4	1,448,941	22.5
Total	31	100.0	6,437,276	100.0

Source: Bank Data

Table 4

LENDING TO BUSINESSES OF DIFFERENT SIZES – 2003				
Gross Annual Revenue	Number	Number by %	Dollar Volume	Dollar Volume by %
Less than \$100,000	30	42.3	3,026,544	26.1
\$100,000 to \$250,000	17	23.9	4,399,764	37.9
\$250,001 to \$500,000	11	15.5	1,562,783	13.4
\$500,001 to \$750,000	3	4.2	310,000	2.7
\$750,001 to \$1,000,000	2	2.8	954,489	8.2
Subtotal	63	88.7	10,253,580	88.3
Over \$1,000,000	8	11.3	1,359,385	11.7
Total	71	100.0	11,612,965	100.0

Source: Bank Data

GEOGRAPHIC DISTRIBUTION

Mid-Valley Bank’s geographic distribution of loans reflects an excellent penetration in the different census tract income levels throughout its assessment area. No conspicuous gaps in the geographic distribution of loans were noted.

Tables 5 and 6 illustrate the bank’s 2002 and 2003 distribution of business loans by count and dollar volume, respectively, in the bank’s assessment area by census tract income levels. For comparison, the distribution of 2002 and 2003 businesses by census tracts within the assessment area is also shown.

For 2002, the bank only originated one large business loan in a moderate-income census tract. As a result, as illustrated in Table 5, the bank’s business lending by count in 2002 was well below the business demographic information on business locations by census tracts. However, by dollar volume, considering this one loan was relatively large, the bank’s 2002 performance was well above the business demographic information as shown in Table 6.

For 2003, both by count and dollar volume, the bank exceeded the business demographic information on business locations by census tract.

Table 5

Distribution of Business Loans by Income Category of Census Tract – Count Totals						
Block Numbering Area Income Level	Business location by Geography *		Bank's Lending Performance			
	2002 *	2003 **	2002 ***		2003 ***	
	%	%	#	%	#	%
Low	0.0	0.1	0	0.0	0	0.0
Moderate	10.4	13.8	1	3.2	12	16.9
Middle	65.6	56.7	28	90.3	52	73.2
Upper	24.0	29.4	2	6.5	7	9.9
Total	100.0	100.0	31	100.0	71	100.0

Source: () - D&B 2002 Data (**)- D&B 2003 Data (***) – Bank Data*

Table 6

Distribution of Business Loans by Income Category of Census Tract – Dollar Volume						
Block Numbering Area Income Level	Business location by Geography *		Bank's Lending Performance			
	2002 *	2003 **	2002 ***		2003 ***	
	%	%	\$ (000)	%	\$ (000)	%
Low	0.0	0.1	0	0.0	0	0.0
Moderate	10.4	13.8	1,135	17.6	2,475	21.3
Middle	65.6	56.7	4,070	63.2	8,175	70.4
Upper	24.0	29.4	1,232	19.2	963	8.3
Total	100.0	100.0	6,437	100.0	11,613	100.0

Source: () - D&B 2002 Data (**)- D&B 2003 Data (***) – Bank Data*

RESPONSE TO CRA-RELATED COMPLAINTS

A review of FDIC records, as well as the bank's Public CRA File, did not reveal any CRA-related complaints since the previous evaluation.