PUBLIC DISCLOSURE

January 21, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Valley Republic Bank
Certificate Number: 58828

5000 California Avenue, Suite 110
Bakersfield, California 93309

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
San Francisco Regional Office

25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

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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INSTITUTION RATING

INSTITUTION'S COMMUNITY REINVESTMENT ACT (CRA) RATING: This institution is rated **Needs to Improve.**

An institution in this group needs to improve its overall record of helping to meet the credit needs of its assessment area (AA), including low- and moderate-income (LMI) neighborhoods, in a manner consistent with its resources and capabilities.

The Lending Test is rated Needs to Improve.

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and AA credit needs.
- The bank made a substantial majority of its small business and home mortgage loans in the AA.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.
- The distribution of borrowers reflects, given the demographics of the AA, very poor penetration among businesses of different sizes and individuals of different income levels.
- The institution did not receive any CRA-related complaints during the evaluation period; therefore, this factor did not affect the Lending Test rating.

The Community Development Test is rated Needs to Improve.

- The institution demonstrated poor responsiveness to the community development (CD) needs of its AA through CD loans, qualified investments, and CD services, as appropriate. Examiners considered the institution's capacity and the need and availability of such opportunities for CD in the AA.

DESCRIPTION OF INSTITUTION

Valley Republic Bank (VRB) is a state-chartered commercial bank headquartered in Bakersfield, California (CA). The institution is a wholly-owned subsidiary of Valley Republic Bancorp, a one-bank holding company. VRB received a Satisfactory rating at its prior FDIC CRA Performance Evaluation dated April 3, 2017, based on Interagency Intermediate Small Institution Examination Procedures.

VRB operates four branches, including its corporate headquarters, in Kern County. The institution opened one new branch since the previous evaluation. The Delano branch was opened on April 17, 2017 and subsequently relocated within the same retail center on April 22, 2019. Of the four total branches, three are located in upper-income census tracts (CTs), while one is located in a middle-income CT. VRB has not had any merger or acquisition activity or closed any branches since the previous evaluation.

The institution focuses on commercial lending and offers commercial, Small Business Administration, agricultural, construction, home mortgage, and consumer loans. VRB provides a variety of deposit products including personal checking, senior checking, savings, money market, certificates of deposit, and individual retirement accounts. Alternative banking services include internet and mobile banking, electronic bill pay, night depository, business remote deposit, wire transfers, and safe deposit boxes. The bank does not operate any automated teller machines.

The September 30, 2019 Consolidated Reports of Condition and Income (Call Report) reflects approximately $915.0 million in total assets, $808.6 million in total deposits, and $93.2 million in total equity capital. Total loans are approximately $589.2 million, or 64.4 percent, of total assets. The following table details the bank's loan portfolio distribution.

Loan Portfolio Distribution as of September 30, 2019

Loan Category	**$(000s)**	**%**
Construction and Land Development	48,802	8.3
Secured by Farmland	66,855	11.3
1-4 Family Residential	43,357	7.4
Multifamily Residential	2,251	0.4
Commercial Real Estate	293,813	49.9
Total Real Estate Loans	**455,078**	77.3
Commercial and Industrial	97,913	16.6
Agricultural	34,552	5.9
Consumer	1,550	0.2
Other	63	0.0
Less: Unearned Income	(0.0)	(0.0)
Total Loans	**589,156**	**100.0**

Source: 9/30/2019 Call Report

Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet the credit needs of the AA.

DESCRIPTION OF ASSESSMENT AREA

VRB delineated Kern County, CA as the bank's AA. The AA has not changed since the previous evaluation and includes all 151 CTs within the entire county. Kern County is the sole county that comprises the Bakersfield, CA Metropolitan Statistical Area (MSA) #12540. The AA complies with the technical requirements of the CRA and does not arbitrarily exclude any LMI neighborhoods or individuals.

Economic and Demographic Data

Based on the 2015 American Community Survey (ACS) Census data, the AA consists of 151 CTs with the following income designations:

- 14 low-income CTs;
- 40 moderate-income CTs;
- 44 middle-income CTs;
- 48 upper-income CTs; and
- 5 CTs with no income designation.

LMI CTs account for 9.3 percent and 26.5 percent, respectively, of total AA's CTs. The following table illustrates select demographic, housing, and business information within the AA.

Demographic Information of the Assessment Area						
Demographic Characteristics	**#**	**Low % of #**	**Moderate % of #**	**Middle % of #**	**Upper % of #**	**NA* % of #**
Geographies (Census Tracts)	151	9.3	26.5	29.1	31.8	3.3
Population by Geography	865,736	9.7	23.3	31.8	33.0	2.3
Housing Units by Geography	289,529	9.9	21.6	32.9	35.5	0.1
Owner-Occupied Units by Geography	147,125	5.6	15.8	32.3	46.2	0.1
Occupied Rental Units by Geography	112,575	14.8	29.3	31.9	23.9	0.1
Vacant Units by Geography	29,829	13.1	21.4	39.3	26.1	0.1
Businesses by Geography	40,041	5.9	20.5	27.9	44.9	0.8
Farms by Geography	1,688	4.4	21.0	32.8	39.9	2.0
Family Distribution by Income Level	196,097	24.8	16.4	16.1	42.7	0.0
Household Distribution by Income Level	259,700	25.5	16.2	15.8	42.6	0.0
Median Family Income MSA - #12540 Bakersfield, CA MSA		$52,649	Median Housing Value			$160,795
			Median Gross Rent			$927
			Families Below Poverty Level			19.4%

Source: 2015 ACS Census and 2018 D&B Data.
Due to rounding, totals may not equal 100.0 percent.
(*) The NA category consists of geographies that have not been assigned an income classification.

According to the 2018 D&B data, there are 40,041 businesses in the AA. A total of 84.4 percent of non-farm businesses in the AA have gross annual revenues (GARs) of $1.0 million or less. Further, 4.9 percent have GARs over $1.0 million and 10.7 percent have revenues that are not reported.

The 2018 median family incomes updated by the Federal Financial Institutions Examination Council (FFIEC) and the low-, moderate-, middle-, and upper-income levels in the AA are presented in the following table.

Median Family Income Ranges				
Median Family Incomes	**Low <50%**	**Moderate 50% to <80%**	**Middle 80% to <120%**	**Upper ≥120%**
Bakersfield, CA MSA Median Family Income (12540)				
2018 ($58,700)	<$29,350	$29,350 to <$46,960	$46,960 to <$70,440	≥$70,440
Source FFIEC				

As of November 2019, Bakersfield's private services such as healthcare and hospitality remain strong industries for the area according to Moody's Analytics. Nonetheless, goods-producing industries have declined with losses in agriculture. Kern County has fallen behind Fresno as the state's largest agriculture-producing county. The AA's overall unemployment rate remained low and unchanged at 8.0 percent from 2018 to 2019. The area's strengths include large oil deposits, abundant farmland, a young population, improving migration, and a location that favors warehousing and distribution. Kern County's weaknesses include low industrial diversity, credit quality that is weaker than average, and high poverty. The top five employers are Edwards Air Force Base, China Lake Naval Weapons Center, Grimmway Farms, Wm. Bolthouse Farms Inc., and Dignity Health.

Competition

The area reflects moderate competition for financial services. According to the June 30, 2019 Deposit Market Share Report, 20 financial institutions operate 90 branches in the AA. A number of large national and regional financial institutions operate in the AA, with the top 3 financial institutions holding 58.9 percent of the AA's deposit market share. VRB is ranked 4th with an 8.2 percent deposit market share.

Although VRB is not required to report its small business loan data and it elected not to do so, it is important to note that this reported data reflects the level of demand for small business loans in the AA. In 2018, the most recent year for which aggregate data currently exists, 95 institutions reported 14,637 small business loans in the AA, indicating a moderate level of competition.

There is a high level of competition for home mortgage loans among several banks, credit unions, and non-depository mortgage lenders. In 2018, 526 lenders reported a total of 34,936 originated or purchased residential mortgage loans. VRB ranked 136th out of this group of lenders, with a market share of 0.1 percent. The three most prominent home mortgage lenders accounted for 13.9 percent of total market share.

Community Contact

Examiners reviewed a recent interview with a community contact that serves Kern County. The contact represented a planning department that facilitates CD programs within the AA. The department assists with county projects that include revitalizing neighborhoods, developing affordable housing, expanding employment opportunities, and improving public facilities. The representative noted that Kern County is extremely large geographically and that the unincorporated areas of the county tend to have high levels of poverty. The contact identified the following banking and credit needs: small business microloans, financial education programs, affordable housing, and first-time homebuyer programs for LMI individuals and families. The contact acknowledged that there are readily available CD opportunities within the AA such as financing for affordable housing projects, homeless shelters, and LMI healthcare.

Credit and Community Development Needs and Opportunities

Considering information from the community contact interview, management, and demographic and economic data, examiners determined that small business loans represent a primary AA credit need. Small business loans, particularly microloans, are in high demand. There also continues to be a need for affordable housing and financial education throughout the AA.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation, dated April 3, 2017 to the current evaluation dated January 21, 2020. Examiners used the Interagency Intermediate Small Institution Examination Procedures to evaluate VRB's CRA performance. These procedures include the CRA Small Institution Lending Test and the CD Test.

The Lending Test considered the institution's performance according to the following criteria:

- LTD Ratio;
- AA Concentration;
- Geographic Distribution;
- Borrower Profile; and
- Response to CRA-Related Complaints.

The Lending Test performance criteria are not all weighted equally. Examiners placed more weight on the Geographic Distribution and Borrower Profile criteria when assessing the bank's CRA Lending Test performance.

The CD Test considered the following factors:

- Number and dollar amount of CD loans, qualified investments, and CD services; and
- The responsiveness of such activities to the CD needs of the AA.

Banks must achieve as least a Satisfactory rating under each test to obtain an overall Satisfactory rating. VRB does not have any affiliates; therefore, affiliate lending was not considered.

Activities Reviewed

Examiners determined that the bank's major product lines include small business and home mortgage loans. This conclusion considered the bank's business strategy, loan composition, and the number and dollar volume of loans originated during the evaluation period. Bank records indicate that the lending focus and product mix remained consistent throughout the evaluation period.

The bank is not required and did not report its small business loan data; however, it voluntarily collected such data for internal analysis purposes. As a result, examiners analyzed the entire universe of the most recent three full calendar years of collected small business loan data: 2017, 2018, and 2019. VRB originated 232 small business loans totaling $70.9 million in 2017, 228 small business loans totaling $77.5 million in 2018, and 233 small business loans totaling $83.2 million in 2019. Of these small business loans, 20 loans totaling $9.9 million were identified as qualified CD loans. As a result, management elected to have these 20 loans considered under the CD Test rather than the Lending Test.

VRB is required to collect and report home mortgage loan data under the Home Mortgage Disclosure Act (HMDA). Examiners reviewed the entire universe of the two most recent completed calendar years, 2017 and 2018, of reported home mortgage loan data for this evaluation. VRB reported 27 HMDA loans totaling $23.4 million in 2017 and 34 HMDA loans totaling $18.4 million in 2018. During the evaluation period, the institution also originated and voluntarily collected data on small farm loans. VRB originated 23 small farms totaling $5.6 million in 2017, 28 small farm loans totaling $7.7 million in 2018, and 25 small farm loans totaling $5.9 million in 2019. Examiners reviewed and analyzed these small farm loans; however, they were not presented in this evaluation as the low volume would not make for a meaningful analysis in the overall conclusions.

The bank's small business lending received more weight when drawing conclusions due to the larger volume of loan originations when compared to its home mortgage lending. Examiners compared the bank's small business lending performance to 2017 and 2018 D&B data for each respective year. The bank's home mortgage lending was compared to 2017 and 2018 aggregate data for each respective year, as well as the 2015 ACS data. Examiners identified notable declining trends in the bank's lending performance that materially affected the conclusions; therefore, all analyzed years are presented in this evaluation.

For the CD Test, management provided data on CD loans, qualified investments and donations, and CD services since the previous evaluation. The evaluation of the bank's CD activities is limited to those activities for which management could demonstrate compliance with CRA eligibility requirements. The evaluation of CD investments includes the book value of prior-period investments still outstanding on the bank's books as of the date of this evaluation. Examiners evaluated the bank's CD activity quantitatively based on the financial capacity of the bank, as well as qualitatively based upon the impact to the AA.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

VRB demonstrated poor performance under the Lending Test. Geographic Distribution and Borrower Profile performance primarily support this conclusion.

Loan-to-Deposit Ratio

VRB's LTD Ratio is reasonable given the institution's size, financial condition, and AA's credit needs. The LTD Ratio averaged 72.7 percent over the past 10 calendar quarters from June 30, 2017 to September 30, 2019. The ratio ranged from a low of 67.1 percent as of September 30, 2018, to a high of 75.3 percent as of March 31, 2019. The ratio remained stable during the evaluation period. VRB maintained a LTD Ratio similar to the comparable institution, as shown in the following table. Examiners selected the comparable institution based on asset size, loan portfolio composition, and geographic location.

Loan-to-Deposit Ratio Comparison		
Bank	**Total Assets as of 9/30/2019 ($000s)**	**Average Net LTD Ratio (%)**
Valley Republic Bank	**915,006**	**72.7**
Similarly-Situated Institution	800,373	85.9
Source: Reports of Condition and Income 6/30/2017 through 9/30/2019		

Assessment Area Concentration

VRB originated a substantial majority of its small business and home mortgage loans within its AA. The following table shows that the bank originated 91.6 percent by number and 87.3 percent by dollar volume of small business and home mortgage loans inside its AA during the evaluation period. See the table on the following page.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total	Dollar Amount of Loans $(000s)				Total
	Inside		Outside			Inside		Outside		
	#	%	#	%	#	$	%	$	%	$(000s)
Small Business										
2017	213	95.1	11	4.9	224	64,314	96.2	2,509	3.8	66,823
2018	204	93.2	15	6.8	219	67,031	91.9	5,934	8.1	72,965
2019	214	92.6	17	7.4	231	74,515	90.7	7,619	9.3	82,134
Subtotal	**631**	**93.6**	**43**	**6.4**	**674**	**205,860**	**92.8**	**16,062**	**7.2**	**221,922**
Home Mortgage										
2017	17	63.0	10	37.0	27	16,530	70.7	6,839	29.3	23,369
2018	25	73.5	9	26.5	34	7,644	41.7	10,707	58.3	18,351
Subtotal	**42**	**68.9**	**19**	**31.1**	**61**	**24,174**	**57.9**	**17,546**	**42.1**	**41,720**
Total	**673**	**91.6**	**62**	**8.4**	**735**	**230,034**	**87.3**	**33,608**	**12.7**	**263,642**
Source: 2017, 2018, & 2019 collected small business data; 2017 & 2018 HMDA Loan Application Registers. Due to rounding, totals may not equal 100.0 percent.										

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the AA. The bank's reasonable performance of small business and excellent performance of home mortgage lending supports this conclusion.

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion throughout the AA. The table on the following page illustrates VRB's geographic distribution of small business loans by CT income level.

Geographic Distribution of Small Business Loans					
Tract Income Level	**% of Businesses**	**#**	**%**	**$(000s)**	**%**
Low					
2017	6.1	7	3.3	2,524	3.9
2018	5.9	9	4.4	3,404	5.1
2019	--	7	3.3	2,554	3.4
Moderate					
2017	20.8	29	13.6	10,383	16.1
2018	20.5	29	14.2	8,876	13.2
2019	--	43	20.1	11,966	16.1
Middle					
2017	28.3	55	25.8	19,125	29.7
2018	27.9	45	22.1	16,877	25.2
2019	--	41	19.2	17,492	23.5
Upper					
2017	44.0	113	53.1	28,643	44.5
2018	44.9	117	57.4	36,475	54.4
2019	--	118	55.1	39,811	53.4
Not Available					
2017	0.8	9	4.2	3,639	5.7
2018	0.8	4	2.0	1,400	2.1
2019	--	5	2.3	2,692	3.6
Totals					
2017	**100.0**	**213**	**100.0**	**64,314**	**100.0**
2018	**100.0**	**204**	**100.0**	**67,032**	**100.0**
2019	**--**	**214**	**100.0**	**74,515**	**100.0**

Source: 2017 & 2018 D&B Data; 1/1/2017 - 12/31/2019 Bank Data; "--" data not available.
Due to rounding, totals may not equal 100.0 percent.

VRB's small business lending in low-income CTs was slightly below business demographic data in 2017 and 2018. Similarly, the bank's lending in moderate-income CTs was below business demographic data in 2017 and 2018. Examiners noted that the bank's 2019 performance in moderate-income CTs improved by 5.9 percentage points.

Although aggregate data is not used as a direct comparison or benchmark, it is a good measure to determine the demand for small business credit. Aggregate data for 2017 shows that 4.4 percent and 17.9 percent of small business loans in the AA were originated in LMI CTs, respectively. VRB's 2017 small business lending is slightly below the reported aggregate data. Aggregate data for 2018 is similar with 4.3 percent and 17.6 percent of the AA's small business loans originated inside LMI CTs, respectively. The bank's performance increased slightly in 2018 and was similar to aggregate data within low-income CTs. Aggregate lending data for 2019 is not available. Examiners also noted that three of VRB's branches are located in upper-income CTs, while the fourth branch is located in a middle-income CT. Overall, VRB's geographic distribution of small business loans is reasonable considering business demographic data and the location of the bank's branches.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects excellent dispersion throughout the AA. Examiners focused on the comparison to aggregate data. The following table shows that the bank's performance in low-income CTs compares very favorably to aggregate data in 2017 and 2018. VRB's home mortgage lending in moderate-income CTs is significantly higher than aggregate data in 2017; however, the performance declined significantly in 2018. Overall, this dispersion of lending reflects excellent performance.

Geographic Distribution of Home Mortgage Loans

Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	$(000s)	%
Low						
2017	5.6	3.7	3	17.6	761	4.6
2018	5.6	3.9	2	8.0	253	3.3
Moderate						
2017	15.8	10.7	6	35.3	12,218	73.9
2018	15.8	11.5	0	0.0	0	0.0
Middle						
2017	32.3	30.5	3	17.6	1,320	8.0
2018	32.3	31.4	7	28.0	1,503	19.7
Upper						
2017	46.2	54.7	5	29.4	2,231	13.5
2018	46.2	52.4	15	60.0	5,659	74.0
Not Available						
2017	0.1	0.3	0	0.0	0	0.0
2018	0.1	0.7	1	4.0	229	3.0
Totals						
2017	**100.0**	**100.0**	**17**	**100.0**	**16,530**	**100.0**
2018	**100.0**	**100.0**	**25**	**100.0**	**7,644**	**100.0**

Source: 2015 ACS Census; 1/1/2017 - 12/31/2018 Bank Data, 2017 & 2018 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0 percent.

Borrower Profile

The bank's lending to businesses of different revenue sizes and borrowers of different income levels is very poor. The bank's very poor performance of small business and poor performance of home mortgage lending supports this conclusion.

Small Business Loans

The distribution of small business loans to reflects very poor penetration of loans to businesses with GARs of $1.0 million or less, as illustrated in the following table.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	**% of Businesses**	**#**	**%**	**$(000s)**	**%**
<=$1,000,000					
2017	84.6	59	27.7	12,536	19.5
2018	84.4	52	25.5	12,676	18.9
2019	--	41	19.2	11,565	15.5
>1,000,000					
2017	5.0	147	69.0	49,503	77.0
2018	4.9	150	73.5	53,156	79.3
2019	--	169	79.0	62,091	83.3
Revenue Not Available					
2017	10.4	7	3.3	2,275	3.5
2018	10.7	2	1.0	1,200	1.8
2019	--	3	1.4	672	0.9
Totals					
2017	**100.0**	**213**	**100.0**	**64,314**	**100.0**
2018	**100.0**	**204**	**100.0**	**67,031**	**100.0**
2019	**--**	**213**	**100.0**	**74,328**	**100.0**

Source: 2017 & 2018 D&B Data; 1/1/2017 - 12/31/2019 Bank Data; "--" data not available.
Due to rounding, totals may not equal 100.0 percent.

The bank's small business lending performance is significantly below business demographic data by 56.9 percentage points and 58.9 percentage points in 2017 and 2018, respectively. The bank's small business lending to businesses with GARs of $1.0 million or less trended considerably downward during the evaluation period both by number and dollar amount.

Examiners also noted that VRB's small business lending to businesses with GARs of $1.0 million or less has deteriorated since the previous evaluation where the bank originated 42.6 percent and

40.4 percent of its small business loans to small businesses in 2015 and 2016, respectively. VRB's small business lending to businesses with GARs of $1.0 million or less deteriorated despite a significant increase in total assets from $579.0 million as of December 31, 2016, to $915.0 million as of September 30, 2019. Similarly, the bank's volume of AA small business lending more than doubled since the prior evaluation. Although the bank's total assets and small business lending volume substantially increased, the concentration of small business loans to businesses with GARs of $1.0 million or less continually declined year-over-year since the previous evaluation.

Aggregate data shows that 45.3 percent and 39.4 percent of AA small business loans were originated to businesses with GARs of $1.0 million or less in 2017 and 2018, respectively. VRB's small business lending remained significantly below aggregate data by 17.6 percentage points in 2017 and 13.9 percentage points in 2018. Overall, the bank's small business performance is very poor considering the continued downward trend during the evaluation period, the deterioration since the prior PE, and business demographic data.

Home Mortgage Loans

The distribution of home mortgage loans to individuals of different income levels is poor, as depicted in the table on the following page.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	**% of Families**	**Aggregate Performance % of #**	**#**	**%**	**$(000s)**	**%**
Low						
2017	24.8	2.6	0	0.0	0	0.0
2018	24.8	3.5	0	0.0	0	0.0
Moderate						
2017	16.4	10.0	0	0.0	0	0.0
2018	16.4	11.2	0	0.0	0	0.0
Middle						
2017	16.1	19.4	0	0.0	0	0.0
2018	16.1	21.3	0	0.0	0	0.0
Upper						
2017	42.7	47.3	5	29.4	2,241	13.6
2018	42.7	42.2	0	0.0	0	0.0
Not Available						
2017	0.0	20.6	12	70.6	14,289	86.4
2018	0.0	21.8	25	100.0	7,644	100.0
Totals						
2017	**100.0**	**100.0**	**17**	**100.0**	**16,530**	**100.0**
2018	**100.0**	**100.0**	**25**	**100.0**	**7,644**	**100.0**

Source: 2015 ACS Census; 1/1/2017 - 12/31/2018 Bank Data, 2017 & 2018 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0 percent.

VRB did not originate any home mortgage loans to LMI borrowers during the evaluation period. The bank's poor performance is partially mitigated by the AA's 20.2 percent poverty level, which affects a LMI family's ability to purchase a house. Additionally, VRB originated 70.6 percent and 100.0 percent of its home mortgage loans in 2017 and 2018, respectively, to borrowers without an income designation. Nonetheless, the bank's distribution of home mortgage loans among individuals of different income levels is still poor.

Response to Complaints

VRB did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

COMMUNITY DEVELOPMENT TEST

VRB demonstrated poor responsiveness to the CD needs of its AA through CD loans, qualified investments, and CD services. Examiners considered the institution's capacity and the need and availability of such opportunities.

Community Development Loans

VRB originated 31 CD loans totaling approximately $14.3 million during the evaluation period. This level of activity represents 1.9 percent of average total assets and 2.9 percent of average total loans since the previous evaluation. Although VRB's total assets increased by 58.0 percent since the previous evaluation, the institution's level of CD lending has substantially declined. The previous evaluation noted that VRB originated 17 CD loans totaling $28.8 million, which represented 5.0 percent of total assets and 7.4 percent of total loans as of the December 31, 2016 Call Report. Further, examiners compared the bank's performance to a similarly situated institution and noted that VRB's performance was substantially below the comparable institution by volume of CD loans, percentage of average total assets, and percentage of average total loans. The following table illustrates the bank's CD lending activity by year and purpose.

Community Development Lending

Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	$(000s)	#	$(000s)	#	$(000s)	#	$(000s)	#	$(000s)
2017	4	834	0	0	8	4,435	1	125	**13**	**5,394**
2018	2	2,050	3	1,803	6	2,748	0	0	**11**	**6,601**
2019	3	980	1	24	2	1,027	0	0	**6**	**2,031**
YTD 2020	0	0	0	0	1	266	0	0	**1**	**266**
Total	**9**	**3,864**	**4**	**1,827**	**17**	**8,476**	**1**	**125**	**31**	**14,292**

Source: Bank Records.
Year-to-Date (YTD).

Below are notable examples of the bank's CD loans:

- In 2017, the institution originated a $125,000 loan that financed the repair of a cellular tower in a designated disaster area located in the AA.
- In 2018, VRB originated a $1.7 million loan that financed an 81-unit affordable housing development in Bakersfield.
- In 2018, VRB originated a $350,000 loan that financed the construction of a 41-unit affordable housing project located inside the AA.

Qualified Investments

The institution made 45 qualified investments totaling approximately $6.4 million. This total includes qualified equity investments of approximately $6.4 million and donations of $93,000. The dollar volume of qualified investments increased slightly from $5.6 million to $6.4 million since the previous evaluation; however, this increase in qualified investments is not commensurate with the institution's growth during the evaluation period. Qualified investments as a percentage of total assets and total securities is less half of the ratios noted at the previous evaluation. Investments as a percentage of total assets decreased from 2.3 percent at the previous evaluation to 0.7 percent at the current evaluation, while investments as a percentage of total securities decreased from 14.0 percent to 4.5 percent. Further, the dollar amount of CD donations decreased from $155,930 to $92,961 since the previous evaluation. The bank's qualified investment performance is similar to a comparable institution by volume of qualified investments and percentage of total assets. However, examiners noted that VRB's qualified investments as a percentage of total securities is approximately one-third of the comparable bank. The following table illustrates VRB's CD investments by year and purpose.

Qualified Investments										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	$(000s)	#	$(000s)	#	$(000s)	#	$(000s)	#	$(000s)
Prior Period	2	3,378	0	0	0	0	0	0	**2**	**3,378**
2017	0	0	0	0	0	0	0	0	**0**	**0**
2018	1	2,991	0	0	0	0	0	0	**1**	**2,991**
2019	0	0	0	0	0	0	0	0	**0**	**0**
YTD 2020	0	0	0	0	0	0	0	0	0	0
Subtotal	**3**	**6,369**	**0**	**0**	**0**	**0**	**0**	**0**	**3**	**6,369**
Qualified Grants & Donations	10	22	24	50	8	21	0	0	**42**	**93**
Total	**13**	**6,391**	**24**	**50**	**8**	**21**	**0**	**0**	**45**	**6,462**
Source: Bank Records.										

Below are the bank's qualified investment activities:

- In 2018, the bank purchased a $2.9 million low-income housing tax credit (LIHTC) that invested in 5 projects consisting of 472 units of affordable housing in the AA.

- VRB continues to hold 2 prior period investments with a current book value of $3.3 million. These prior period investments support LIHTC projects for LMI individuals within the AA.

Community Development Services

During the evaluation period, 7 VRB employees and directors provided 26 instances of financial expertise or technical assistance to 9 different CD-related organizations in the AA. The volume of employees, CD service instances, and organizations all decreased since the previous evaluation where 18 employees provided 58 instances of CD service to 18 CD-related organizations. Examiners noted that the number of participating employees and Board members is less than half of the number identified at the previous evaluation, despite a 34.2 percent increase in full-time employees as of the September 30, 2019 Call Report. VRB did not maintain documentation on the number of CD service hours during the review period; therefore, examiners were unable to compare the bank's CD service performance to a similarly situated bank. The following table illustrates the bank's CD services by year and purpose.

Community Development Services					
Activity Year	**Affordable Housing**	**Community Services**	**Economic Development**	**Revitalize or Stabilize**	**Totals**
	#	#	#	#	#
2017	0	6	2	0	**8**
2018	1	5	3	0	**9**
2019	1	5	3	0	**9**
Total	**2**	**16**	**8**	**0**	**26**
Source: Bank Records					

Below are notable examples of the bank's CD services:

- A bank employee serves as the chairman of an anti-poverty agency for Kern County. The agency assists low-income residents with education, employment, housing, childcare, and other critical needs.

- A bank officer serves as the chairman of a foundation that assists low-income and elderly individuals with affordable housing, health care, and supportive services.

- A VRB Board member serves as a Board member for a non-profit economic development organization. The organization supports job creation and retention by financing small- and medium-sized businesses in the AA.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution's overall CRA Rating.

APPENDICES

INTERMEDIATE SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
3) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes;
4) The geographic distribution of the bank's loans; and
5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

Community Development Test

The Community Development Test considers the following criteria:

1) The number and amount of community development loans;
2) The number and amount of qualified investments;
3) The extent to which the bank provides community development services; and
4) The bank's responsiveness through such activities to the area's community development needs considering the amount and combination of these activities, along with their qualitative aspects.

GLOSSARY

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

(1) Support affordable housing for low- and moderate-income individuals;
(2) Target community services toward low- and moderate-income individuals;
(3) Promote economic development by financing small businesses or farms; or
(4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Institution CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Institution CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that:
(1) Has as its primary purpose community development; and
(2) Except in the case of a wholesale or limited purpose institution:
(i) Has not been reported or collected by the institution or an affiliate for consideration in the institution's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
(ii) Benefits the institution's assessment area(s) or a broader statewide or regional area including the institution's assessment area(s).

Community Development Service: A service that:
(1) Has as its primary purpose community development;
(2) Is related to the provision of <u>financial</u> services; and
(3) Has not been considered in the evaluation of the institution's retail banking services under § 345.24(d).

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:
(1) An unemployment rate of at least 1.5 times the national average;
(2) A poverty rate of 20 percent or more; or

(3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area.
Performance under applicable tests is often analyzed using only quantitative factors (e.g, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as **non-MSA**): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Investment Company (SBIC): SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of $1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of $500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

Upper-Income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

"Urban" excludes the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.