

CENTRAL VALLEY COMMUNITY BANCORP
Form 10KSB
March 26, 2004

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-KSB

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended **DECEMBER 31, 2003**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

COMMISSION FILE NUMBER: 000-31977

CENTRAL VALLEY COMMUNITY BANCORP

(Name of small business issuer in its charter)

California

(State or other jurisdiction of incorporation or organization)

77-0539125

(I.R.S. Employer Identification No.)

600 Pollasky Avenue, Clovis, California

(Address of principal executive offices)

93612

(Zip code)

Issuer's telephone number (559) 298-1775

Securities registered under Section 12(b) of the Exchange Act: **NONE**

Securities registered under Section 12(g) of the Exchange Act: **Common Stock, No Par Value**
(Title of Class)

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Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES No

Check if no disclosure of delinquent filers in response to Item 405 of Regulation S-B is contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

State issuer's revenues for its most recent fiscal year: \$ 19,516,000

State the aggregate market value of the voting and non-voting common equity held by nonaffiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of March 24, 2004: \$38,501,883.

State the number of shares of Common Stock outstanding as of March 24, 2004: 2,625,477

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement which will be filed within 120 days after December 31, 2003, in connection with the solicitation of proxies for its 2004 Annual Meeting of Shareholders, are incorporated by reference in Items 9, 10, 11 and 12 of part III hereof. The portions of such documents that are not incorporated by reference shall not be deemed to be filed with the Commission as part of this Form 10-KSB.

Transitional Small Business Disclosure Format (Check one): Yes No

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PART I

ITEM 1 - DESCRIPTION OF BUSINESS.

General

Central Valley Community Bancorp (the Company) was incorporated on February 7, 2000 as a California corporation, for the purpose of becoming the holding company for Central Valley Community Bank, formerly known as Clovis Community Bank (the Bank), a California state chartered bank, through a corporate reorganization. In the reorganization, the Bank became the wholly-owned subsidiary of the Company, and the shareholders of the Bank became the shareholders of the Company. The Company is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (the BHC Act), and is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the Board of Governors).

At December 31, 2003, the Company had one banking subsidiary, the Bank. The Company's principal business is to provide, through its banking subsidiary, financial services in its primary market area in California. The Company serves Fresno County, Sacramento County and the surrounding area through the Bank. The Company does not currently conduct any operations other than through the Bank. Unless the context otherwise requires, references to the Company refer to the Company and the Bank on a consolidated basis. At December 31, 2003, the Company had consolidated total assets of approximately \$327,930,000. See Items 6 and 7, Management's Discussion and Analysis or Plan of Operation and Financial Statements.

During 2003 and 2002, the Company approved stock repurchase plans authorizing the purchase of shares up to a total cost of \$500,000, or approximately 2% and 3%, respectively, of its common stock, in each year. As of December 31, 2003 and 2002, the Company repurchased 5,463 and 40,812 shares at a total cost of \$81,000 and \$483,000, respectively.

In January 2004, the Company approved a stock repurchase plan authorizing the purchase of shares up to a total cost of \$500,000, or approximately 1% of its outstanding common stock. The plan expires January 17, 2004.

As of March 24, 2004, the Company had a total of 130 employees and 99.7 full time equivalent employees, including the employees of the Bank.

Forward-Looking Statements

Certain matters discussed in this Annual Report on Form 10-KSB including, but not limited to, those described in Item 6 - Management's Discussion and Analysis or Plan of Operation, are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Such risks and uncertainties include, among others, (1) significant increases in competitive pressure in the financial services industry; (2) changes in the interest rate environment resulting in reduced margins; (3) general economic conditions, either nationally or regionally, are less favorable than

expected, resulting in, among other things, a deterioration in credit quality; (4) changes in the regulatory environment; (5) fluctuations in the real estate market; (6) changes in business conditions and inflation; and (7) changes in securities markets. Therefore, the information set forth in such forward-looking statements should be carefully considered when evaluating the business prospects of the Company.

When the Company uses in this Annual Report on Form 10-KSB the words anticipate, estimate, expect, project, intend, commit, and similar expressions, the Company intends to identify forward-looking statements. Such statements are not guarantees of performance and are subject to certain risks, uncertainties and assumptions, including those described in this Annual Report on Form 10-KSB. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected, projected, intended, committed or believed. The future results and shareholder values of the Company may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results and values are beyond the Company's ability to control or predict. For those statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

The Bank

The Bank was organized in 1979 and commenced business as a California state chartered bank in 1980. The deposits of the Bank are insured by the Federal Deposit Insurance Corporation (the FDIC) up to applicable limits. The Bank is not a member of the Federal Reserve System.

The Bank operates seven full-service banking offices in Clovis, Fresno, Kerman, Sacramento, and Prather, California. One of the offices is in a Save Mart Supermarket and offers extended banking hours, including Saturday and Sunday hours, for the convenience of the Bank's customers. The Bank established a Real Estate Division in 1995 in a freestanding facility in downtown Clovis. All real estate related transactions are conducted and processed through the Real Estate Division, including interim construction loans for single family residences and commercial buildings. All types of permanent single family residential loans are also offered.

No new offices or locations were completed in 2003. The Company focused on gaining the benefits of the new offices opened in 2002 and on offering competitive products and services.

During 2002, the Bank relocated its River Park and Fig Garden Village offices in Fresno, California to new expanded sites. Also in 2002, the Bank also opened two new full service offices in step with its strategic plans to expand its market areas to the entire central valley area of California. An office in the Sacramento area was opened in the first half of 2002 and in the second half of 2002, a new office located in Kerman, California was opened.

The Bank anticipates additional branch openings to meet the growing service needs of its customers. The branch expansions provide the Company with opportunities to expand its loan and deposit base; however, based on past experience, management expects these new offices will initially have a negative impact on earnings until the volume of business grows to cover fixed overhead expenses. The Bank anticipates opening a new full-service office in 2004 or 2005 in the Fresno downtown area.

The Bank conducts a commercial banking business, which includes accepting demand, savings and time deposits and making commercial, real estate and consumer loans. It also issues cashier's checks, sells traveler's checks and provides safe deposit boxes and other customary banking services. The Bank also has offered Internet Banking since 2000. Internet Banking consists of inquiry, account status, bill paying, account transfers, and cash management. The Bank does not offer trust services or international banking services and does not currently plan to do so in the near future.

Since August of 1995 the Bank has been a party to an agreement with Investment Centers of America, pursuant to which Investment Centers of America provides Bank customers with access to investment services. In connection with entering into this agreement, the Bank adopted a policy intended to comply with FDIC Regulation Section 337.4, which outlines the guidelines under which an insured non-member bank may be affiliated with a company that directly engages in the sale, distribution, or underwriting of stock, bonds, debentures, notes, or other securities.

There have been no other significant changes in the kinds of services rendered, the principal markets for or the methods of distribution of such services during the Bank's past three fiscal years.

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The Bank's operating policy since its inception has emphasized serving the banking needs of individuals and the business and professional communities in the central valley area of California. At December 31, 2003, the Company had total loans of \$186,274,000. Total commercial and industrial loans outstanding were \$55,506,000; total real estate construction, land development and other land loans outstanding were \$25,232,000; total other real estate loans outstanding were \$90,033,000, and total consumer installment loans outstanding were \$5,117,000. The Company accepts real estate, listed and unlisted securities, savings and time deposits, automobiles, inventory, machinery and equipment as collateral for loans.

No individual or single group of related accounts is considered material in relation to the Bank's assets or deposits, or in relation to the overall business of the Company. However, at December 31, 2003 approximately

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61.7% of the Company's loan portfolio held for investment consisted of real estate-related loans, including construction loans, real estate mortgage loans and commercial loans secured by real estate and 29.7% consisted of commercial loans. *See Item 6 - Management's Discussion and Analysis or Plan of Operation.* The Company believes that these concentrations are mitigated by the diversification of the loan portfolio among commercial, commercial and residential construction, commercial mortgage, home equity and consumer loans. In addition, the business activities of the Company currently are mainly concentrated in Fresno County, California. Consequently, the results of operations and financial condition of the Company are dependent upon the general trends in this part of the California economy and, in particular, the residential and commercial real estate markets. In addition, the concentration of the Company's operations in this area of California exposes it to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires and floods in this region or as a result of energy shortages in California.

The Company's deposits are attracted from individual and commercial customers. A material portion of the Company's deposits has not been obtained from a single person or a few persons, the loss of any one or more of which would have a material adverse effect on the business of the Company.

In order to attract loan and deposit business from individuals and small businesses, the Company maintains the following lobby hours at its branches:

Branch	Monday	Thursday	Friday	Saturday	Sunday
Clovis Main	9:00 a.m. to 4:00 p.m.		9:00 a.m. to 6:00 p.m.	None	None
Clovis Main Drive Up	8:00 a.m. to 5:30 p.m.		8:00 a.m. to 6:00 p.m.	None	None
Foothill	9:00 a.m. to 5:00 p.m.		9:00 a.m. to 6:00 p.m.	9:00 a.m. to 1:00 p.m.	None
Clovis/Herndon	10:00 a.m. to 7:00 p.m.		10:00 a.m. to 7:00 p.m.	10:00 a.m. to 5:00 p.m.	10:00 a.m. to 3:00 p.m.
Fig Garden Village	9:00 a.m. to 5:00 p.m.		9:00 a.m. to 6:00 p.m.	10:00 a.m. to 2:00 p.m.	None
Kerman	9:00 a.m. to 5:00 p.m.		9:00 a.m. to 6:00 p.m.	None	None
River Park	9:00 a.m. to 5:00 p.m.		9:00 a.m. to 6:00 p.m.	10:00 a.m. to 2:00 p.m.	None
River Park Drive Up	8:00 a.m. to 5:30 p.m.		8:00 a.m. to 6:00 p.m.	10:00 a.m. to 2:00 p.m.	None
Sacramento Private Banking	9:00 a.m. to 4:00 p.m.		9:00 a.m. to 4:00 p.m.	None	None

Automated teller machines operate at 6 branch locations and 2 non-branch locations 24 hours per day, seven days per week. No automated teller machines are currently located at the Sacramento office. The Company's Real Estate and Small Business Administration (SBA) Departments maintain business hours of 8:00 A.M. to 5:00 P.M., Monday through Friday, and extended hours are available at customer request.

The Bank relies substantially on local promotional activity, personal contacts by its officers, directors and employees, referrals by its shareholders, extended hours, personalized service and its reputation in the communities it serves to compete effectively.

In Fresno County, in addition to the Company's seven branch locations, serving the Bank's primary service areas, as of December 31, 2003 there were 112 operating banking offices in the Company's primary service area, which consists of the cities of Clovis, Fresno, Kerman and Prather, California, of which 65 were offices of regional and major chain banking systems and 12 were offices of other community banks. Prather does not contain any

banking offices other than the Company's office. The Company's primary service area contains 26 thrift offices. Business activity in the Company's primary service area is oriented towards light industry, small business and agriculture.

In Sacramento County, in addition to the Company's one branch, as of December 31, 2003 there were 199 operating banking offices in the Company's primary service area of which 104 were offices of regional and major chain banking systems and 22 were offices of other community banks. The Sacramento service area contains 56 thrift offices.

The banking business in California generally, and in the Company's primary service area specifically, is highly competitive with respect to both loans and deposits, and is dominated by a relatively small number of major banks with many offices operating over a wide geographic area. Among the advantages such major banks have over the Company is their ability to finance wide-ranging advertising campaigns and to allocate their investment assets, including loans, to regions of higher yield and demand. Major banks offer certain services such as international banking and trust services which are not offered directly by the Bank but which usually can be offered indirectly through correspondent institutions. In addition, by virtue of their greater total capitalization, such banks have substantially higher lending limits than the Bank. Legal lending limits to an individual customer are limited to a percentage of a bank's total capital accounts. As of December 31, 2003, the Bank's legal loan limits to individual customers were \$4,040,000 for unsecured loans and \$6,734,000 for unsecured and secured loans combined. For borrowers desiring loans in excess of the Bank's lending limits, the Bank makes and may, in the future, make such loans on a participation basis with other community banks taking the amount of loans in excess of the Bank's lending limits. In other cases, the Bank may refer such borrowers to larger banks or other lending institutions.

Other entities, both governmental and in private industry, seeking to raise capital through the issuance and sale of debt or equity securities also provide competition for the Bank in the acquisition of deposits. Banks also compete with money market funds and other money market instruments, which are not subject to interest rate ceilings. In recent years, increased competition has also developed from specialized finance and non-finance companies that offer wholesale finance, credit card, and other consumer finance services, including on-line banking services and personal finance software. Competition for deposit and loan products remains strong, from both banking and non-banking firms, and affects the rates of those products as well as the terms on which they are offered to customers.

Technological innovation continues to contribute to greater competition in domestic and international financial services markets. Technological innovation has, for example, made it possible for non-depository institutions to offer customers automated transfer payment services that previously have been traditional banking products. In addition, customers now expect a choice of several delivery systems and channels, including telephone, mail, home computer, ATMs, self-service branches, and in-store branches.

Mergers between financial institutions have placed additional pressure on banks to streamline their operations, reduce expenses, and increase revenues to remain competitive. In addition, competition has intensified due to federal and state interstate banking laws, which permit banking organizations to expand geographically with fewer restrictions than in the past. Such laws allow banks to merge with other banks across state lines, thereby enabling banks to establish or expand banking operations in the Company's market. The competitive environment also is significantly impacted by federal and state legislation, which may make it easier for non-bank financial institutions to compete with the Company.

Clovest Corporation

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The Bank has engaged in real estate investment and development activities since 1987 through a wholly-owned subsidiary, Clovest Corporation (Clovest). On July 15, 1998 the Board of Directors approved the discontinuance of Clovest s operations. As of December 31, 2003 and 2002, and for the years then ended, the Company s investment in Clovest and the results of Clovest s operations were not material.

Clovis Securities Corporation

The Bank has another wholly-owned subsidiary, Clovis Securities Corporation, which has been inactive since December 31, 1993.

Central Valley Community Realty,LLC

The Bank formed a real estate investment trust, Central Valley Community Realty, LLC (CVCR) in 2002. The trust invests in the Bank's real estate related assets. CVCR, as a real estate investment trust, is afforded certain tax advantages which reduce state income tax expense. Refer to Item 6, Management's Discussion and Analysis or Plan of Operations for further discussion on CVCR.

Statistical Disclosure

This information should be read in conjunction with the consolidated financial statements and the notes thereto and the Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included in items 6 and 7 of this annual report.

Distribution Of Average Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential

Table A sets forth the Company's average consolidated balance sheets for the years ended December 31, 2003, 2002 and 2001 and an analysis of interest rates and the interest rate differential for the years then ended. Table B sets forth the changes in interest income and interest expense in 2003 and 2002 resulting from changes in volume and changes in rates.

Investment Portfolio

The book value of investment securities at December 31, 2003, 2002 and 2001 and the book value, maturities and weighted average yield of investment securities at December 31, 2003 are set forth in Table C.

Loan Portfolio

The composition of the loan portfolio at December 31, 2003, 2002, 2001, 2000, and 1999 is summarized in Table D.

Maturities and sensitivity to changes in interest rates in the loan portfolio at December 31, 2003 are summarized in Table E.

Table F shows the composition of non-accrual, past due and restructured loans at December 31, 2003, 2002, 2001, 2000, and 1999. Set forth in the text accompanying Table F is a discussion of the Company's policy for placing loans on non-accrual status.

Summary Of Loan Loss Experience

Table G sets forth an analysis of loan loss experience as of and for the years ended December 31, 2003, 2002, 2001, 2000, and 1999.

Set forth in the text accompanying Table G is a description of the factors which influenced management's judgment in determining the amount of the additions to the allowance charged to operating expense in each fiscal year, a table showing the allocation of the allowance for credit losses to the various types of loans in the portfolio, as well as a discussion of management's policy for establishing and maintaining the allowance for credit losses.

Deposits

Table H sets forth the average amount of and the average rate paid on major deposit categories for the years ended December 31, 2003, 2002, and 2001.

Table I sets forth the maturity of time certificates of deposit of \$100,000 or more at December 31, 2003.

Return On Equity And Assets

Table J sets forth certain financial ratios for the years ended December 31, 2003, 2002, and 2001.

Table A

**DISTRIBUTION OF AVERAGE ASSETS, LIABILITIES AND SHAREHOLDERS
EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL**

The following table sets forth consolidated average assets, liabilities and shareholders' equity; interest income earned and interest expense paid; and the average yields earned or rates paid thereon for the years ended December 31, 2003, 2002 and 2001. The average balances reflect daily averages except non-accrual loans, which were computed using quarterly averages.

(Dollars in Thousands)	Average Balance	2003 Interest Income/ Expense	Average Rates Earned	Average Balance	2002 Interest Income/ Expense	Average Rates Earned	Average Balance	2001 Interest Income/ Expense	Average Rates Earned
ASSETS:									
Interest-earning deposits in other banks	\$ 500	\$ 11	2.20%	\$ 175	\$ 5	2.86%	\$ 100	\$ 3	3.00%
Investment securities:									
Taxable	67,238	1,981	2.95%	50,974	2,629	5.16%	55,059	3,475	6.31%
Non-taxable (1)	15,842	754	4.76%	10,136	512	5.05%	8,665	479	5.53%
Total investment securities	83,080	2,735	3.29%	61,110	3,141	5.14%	63,724	3,954	6.20%
Federal funds sold									