



PUBLIC DISCLOSURE

January 12, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Commerce Bank of Washington, National Association
Charter Number 18752

601 Union Street, Suite 3600 Seattle, WA 98101

Office of the Comptroller of the Currency

400 7th Street S.W., Washington, DC 20219

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.

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

The Lending Test is rated: Satisfactory
Community Development Test is rated: Outstanding

The major factors that support this rating for The Commerce Bank of Washington, N.A. (TCBW) include:

- TCBW'S loan-to-deposit ratio is reasonable.
- A majority of the bank's loans were originated within the bank's assessment area.
- The distribution of TCBW's commercial loans reflects an excellent dispersion among geographies with different income levels.
- The borrower distribution of loans to small businesses of different income levels is poor.
- TCBW was not the target of any CRA complaints during the review period.
- Responsiveness to community development needs and opportunities within the bank's assessment area is excellent.

Scope of Examination

We evaluated TCBW using examination procedures for Intermediate Small Banks (ISB). ISB procedures include a lending test and a community development (CD) test. Results of the lending test are used to assess the banks record in meeting the credit needs of the bank's assessment area (AA) through its lending activities. Results of the CD test are used to assess the banks responsiveness to CD needs in its AA through CD lending activities, qualified investments and donations, and services.

The scope of the lending test covers the bank's performance from January 1, 2012 through December 31, 2013. The evaluation period for the CD test is from November 28, 2011 to January 26, 2015.

TCBW's primary loan product is small loans to businesses. The bank is not required to report this loan data, however, management chose to collect it and present it for analysis. We tested the accuracy of this data and found it to be accurate and reliable. Therefore, we used the data to assess the bank's lending performance. The bank reports home mortgage data under the requirements of the Home Mortgage Disclosure Act (HMDA). However, the volume of HMDA loans originated is minimal, as the bank

only originates these loans as an accommodation to existing customers. As such, we did not select home mortgage loans as a primary loan product for analysis.

Description of Institution

TCBW is a single office, intrastate bank headquartered in Seattle, Washington. As of September 30, 2014, the bank had assets totaling \$907 million. TCBW is wholly owned by Zion's Bancorporation (Zion's), a \$56 billion bank holding company operating in the Western United States. The bank operates out of the 36th floor of the Two Union Square building in Seattle's downtown business district. The corporate structure does not facilitate a typical retail focus. TCBW strives to foster an "on-site" banker culture; the bank has one teller, no drive through facilities, and no automated teller machines (ATMs). The bank enhances its single office structure by offering a courier service, effectively creating a "messenger service branch" to customers with local offices.

TCBW offers a variety of deposit and loan products customized to meet the individual needs of each customer. The bank's primary focus is business lending, with consumer and mortgage loan products offered as an accommodation for existing customers and their families. As of September 30, 2014, TCBW reported net loans and leases of \$643 million and had a net loans and leases to average assets ratio of 71.1 percent. The loan portfolio composition is as follows:

Loan Portfolio Summary by Loan Product	
September 30, 2014	
Loan Category	% of Outstanding Dollars
Business Loans	78.8%
Home Loans	11.9%
Other Loans	5.5%
Consumer Loans	3.2%
Farm Loans	0.5%

There are no legal or financial impediments to TCBW's ability to meet the credit and CD needs of its assessment area. The bank was rated Satisfactory at its last CRA examination, dated November 28, 2011.

Description of Assessment Area

TCBW has one AA located in the northwest corner of Washington State. The delineated AA surrounds the bank's one location and is limited to a portion of King County, located in the Seattle-Bellevue-Everett Metropolitan Division (MD). This MD is a part of the Seattle-Tacoma-Bellevue Metropolitan Statistical Area (MSA). The AA includes the cities of Seattle, Bellevue, Kirkland, and Mercer Island in King County. Census data indicates that the AA population increased by 109 percent from 2000 to

2010, with 81 percent of the AA population residing in Seattle. The AA meets the requirements of the regulation and does not arbitrarily exclude any low or moderate-income (LMI) census tracts. The assessment area is described below:

Demographic Information for the Seattle AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	168	6.55	14.29	38.69	39.29	1.19
Population by Geography	780,626	5.97	14.34	41.07	37.89	0.73
Owner-Occupied Housing by Geography	180,811	1.69	10.28	39.91	48.11	0.01
Business by Geography	103,340	5.35	11.34	38.81	44.19	0.32
Farms by Geography	1,365	3.30	13.04	39.34	44.25	0.07
Family Distribution by Income Level	166,452	19.34	15.74	19.20	45.71	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	58,399	7.03	21.68	45.53	25.76	0.00
Median Family Income HUD Adjusted Median Family Income for 2014 Households Below Poverty Level		83,852 83,852 11%	Median Housing Value Unemployment Rate (2010 US Census)		488,994 3.64%	

Source: 2010 US Census and 2014 HUD updated MFI

US Census statistics indicate that Seattle has one of the most educated workforces in the United States, with 64 percent of people 25 years and older having a four-year college degree or higher. This compares favorably to the national average of 37 percent. The median household income in Seattle was \$67,479 in 2013, approximately 13 percent higher than the state of Washington, and 23 percent higher than the U.S. median income. The unemployment rate for the Seattle-Tacoma-Bellevue MSA, as of November 2014, had dropped to 5.1 percent, from 9.1 percent as of June 2011, according to the Bureau of Labor Statistics. The unemployment rate in Seattle was 4.2 percent during the same reporting period. However, the portion of Seattle residents below the poverty threshold remained relatively stable. Information from the 2010 U.S. census indicates that 11 percent of families in the bank's assessment area live below

the poverty level. According to the director of the West Coast Poverty Center at the University of Washington, the poverty rate coupled with higher income inequality in the area indicates, “the economic recovery has not reached many low-income Washingtonians.”

Seattle is consistently recognized as one of the top U.S. cities to locate a business. The city’s skilled workforce, manufacturing capability, education and research, quality transportation, infrastructure, government accessibility, and access to international and domestic markets are key factors in this recognition. From January 1, 2011 through December 31, 2012, Seattle had 15,300 business openings and 7,300 closures.

According to the Economic Development Council of Seattle and King County, the largest employer in King County is the Boeing Company with 85,000 full-time employees. Boeing is the world's largest aerospace company and leading manufacturer of commercial jetliners and defense, space, and security systems. Other key employers include Microsoft, University of Washington, Amazon, Weyerhaeuser, Group Health Cooperative, Fred Meyer, Bank of America, Qwest Communications, and Nordstrom.

Key industries in the MSA include aerospace, information and communication technology, clean technology, life science, biotechnology, marine technologies, and wineries. Additionally, with an endowment of more than \$36 billion, the Seattle-based Bill and Melinda Gates Foundation is a major supporter of Seattle’s global health and biotechnology industries.

During the review period, economic conditions within the assessment area have been recovering from the damage of what local economists called the worst recession in history since the Great Depression. By 2013, the Seattle area economy was near full recovery and the regional economy continued to mend at a much faster rate than that of the national economy. King County has been at the center of the statewide recovery. All major industry sectors have experienced positive employment growth, albeit to varying degrees. Industries reporting the largest proportional post-recession gains include professional and business services, retail trade, leisure and hospitality, construction and manufacturing.

Information from the Seattle RealtyTrac website indicates home sales for November 2014 were down 32 percent compared with the previous month, and down 9 percent compared with a year ago. The median sales price of a non-distressed home was \$410,000, compared to a median sales price of \$385,000 in April 2011. In 2014, the median sales price of a foreclosure home was \$226,730, or 45 percent lower than non-distressed home sales. In December 2014, the number of properties that received a foreclosure filing in Seattle was 1 percent lower than the previous month and 9 percent lower than the same time last year. There are currently 1,737 properties in Seattle in some stage of foreclosure.

Competition in the AA is moderate. According to the June 30, 2014 FDIC Deposit Market Share Report, 41 financial institutions operating 362 branches are located in the

bank's AA. The bank's competitors include a number of local community banks, however; several large regional and nationwide institutions also operate within the bank's AA. National banks including Bank of America, Wells Fargo, U.S. Bank, JP Morgan Chase, Key Bank and Washington Federal have a combined 261 branches and account for over 80 percent of the deposit market share.

There are several organizations in the bank's assessment area that provide community services to low and moderate income individuals and families. This provides the bank with a number of opportunities to participate in community development activities. As part of our community contact program, we conducted interviews with two organizations within the bank's AA to identify and discuss community needs. Our contacts included:

- A Community Development Financial Institution (CDFI) providing real estate financing products and community building support to non-profit community-based organizations throughout the state of Washington; and
- A nonprofit that promotes low-income housing, special needs housing, and economic development statewide through loans to developers and education advocacy programs.

The individuals we spoke with identified the following community development needs and opportunities for institutions in the Seattle area:

- Affordable housing;
- Lower cost capital for CDFI loan funds;
- Lending to CDFI Large Loan Funds that provide predevelopment lending for affordable housing;
- Lending to charter schools;
- Loans and equity-equivalent investments and grants for affordable housing;
- Board membership for community organizations;
- Service on local advisory community organization committees; and
- Become a member/provide loan funding to non-profit organizations that promote low-income and special needs housing.

Conclusions with Respect to Performance Tests

LENDING TEST

TCBW's performance under the lending test is Satisfactory. We assigned equal weight to the borrower distribution and the geographic distribution performance criteria. The geographic distribution is excellent. However, the penetration of loans among businesses of different sizes is poor.

Loan-to-Deposit Ratio

The bank’s loan-to-deposit ratio is reasonable given its size, financial condition, and the demonstrated credit needs of the assessment area. The loan-to-deposit ratio averaged 77.46 percent over the past eight quarters since the last CRA examination. This ratio ranged from a quarterly low of 70.07 percent to a high of 90.5 percent during the review period.

The bank’s loan-to-deposit ratio compares favorably with other financial institutions of similar size, location, and product offerings. TCBW ranks 8th out of 12 similarly situated banks. The average net loan-to-deposit ratios for the other 11 institutions over the same eight quarters ranged from a low of 65.37 percent to a high of 103.50 percent. The loan-to-deposit ratio at TCBW declined due to low loan demand and an overall increase in bank deposits. During the review period, loan-to-deposit ratios declined statewide.

Lending in Assessment Area

TCBW originated a majority of its small business loans within its assessment area. From January 2012 through September 2014, the number of loan originations inside the assessment area were 77.9, 79.8, and 77.8 percent of total loans, respectively. The following table includes details regarding the bank’s lending within the AA by number and dollar amount of loans.

Table 1 - Lending in Seattle MSA AA In/Out ratio										
Business Loans	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
2012	307	77.9%	87	22.0	394	74	75.5%	24	24.4%	394
2013	284	79.8%	72	20.2%	356	67	75.8%	21	24.1%	356

Source- 1/1/2012 – 12/31/2013 collected small loans to business data

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

The distribution of loans to businesses of different sizes, including small businesses, is poor. Small businesses are defined as businesses with gross annual revenues of one million or less. The distribution of loans to small businesses improved during the review period, from 19.22 percent to 23.08 percent. However, the bank’s penetration is considered poor compared to demographic comparators. The following table contains information related to the distribution of commercial loans to businesses of different sizes for January 1, 2012 through September 30, 2014.

Table 2 - Lending to Small Businesses Seattle AA							
	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size		
	#	% of Total	% of Businesses	% Bank Loans	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000
2012	307	100.00	68.50	19.22	49.84	20.52	29.64
2013	284	100.00	65.11	16.90	46.83	21.48	31.69

Source- 1/1/2012 – 12/31/2013 collected small loans to business data

Geographic Distribution of Loans

The bank's geographic distribution of business loans reflects excellent dispersion throughout the census tracts of different income levels within the bank's AA. We did not identify any conspicuous lending gaps. The level of lending in low- and moderate-income geographies significantly exceeds the demographic comparators. The following table details the bank's performance as compared to the percentage of businesses in each census tract income level.

Table 3 - Geographic Distribution of Loans to Businesses in Seattle MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Business Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
2012	5.45	10.10	11.57	7.17	39.59	41.04	43.11	41.69
2013	5.25	9.51	11.34	8.80	39.21	36.97	43.95	44.72

Source- 1/1/2012 – 12/31/2013 collected small loans to business data

Responses to Complaints

The bank did not receive any CRA complaints during the evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank's performance under the CD test is rated Outstanding. TCBW has demonstrated excellent responsiveness to the CD needs of its AA, considering its size, capacity, and CD opportunities. During the evaluation period, TCBW provided \$22 million in CD loans that benefit its assessment area and a broader statewide or regional area. The bank also provided \$228 thousand in CD contributions and purchased CD-related investments totaling \$4.9 million. In addition, bank personnel provided 465 hours of financial expertise to seven CD organizations.

Number and Amount of Community Development Loans

The bank originated 25 CD loans totaling \$22 million during the evaluation period. The majority of the loans were for affordable housing benefiting LMI individuals and families. Some of the largest loans include:

- \$10 million to a community health center serving LMI individuals by providing health and housing services.
- \$2.5 million to a housing alliance providing shelter for the homeless and for new construction projects.
- \$1.6 million to provide funds to construct apartments for LMI individuals.
- \$750 thousand to an organization for an LMI housing development.
- \$500 thousand to an organization providing various services for LMI individuals within the AA.

Since the bank has adequately addressed the community development needs in its AA, we also considered a CD loan made at the broader regional area that includes the bank's AA, even though this loan has no potential to benefit the AA. The loan, totaling \$507 thousand, benefits a tribal entity located on a small island in southeastern Alaska. This island has a high poverty rate and a 21 percent unemployment rate. The funds will provide permanent working capital for a small fishing operation that provides seasonal jobs for LMI individuals.

Number and Amount of Qualified Investments and Donations

TCBW made three new investments during the review period totaling \$4.9 million as of October 23, 2014. The investments are comprised of three FNMA mortgage backed securities that benefit LMI borrowers. TCBW also donated to various CD organizations. The donations made during the current review period total \$228 thousand and all benefit the AA. The most notable are as follows:

- \$80 thousand consists of total donations to United Way, which provides social services and housing for vulnerable homeless individuals.
- \$26 thousand represents a donation to an organization benefiting homeless and low-income individuals over the age of 18.
- \$20 thousand represents a donation to an organization that supports providing meals for the hungry throughout the AA and western AA region.

The remaining donations consist of smaller amounts supporting items such as education, housing, health care, and emotional support.

Extent to Which the Bank Provides Community Development Services

A number of bank officers provided 465 hours of financial expertise to seven CD organizations. A majority of the organizations provide services to LMI individuals. Two of the organizations provide affordable housing and two other organizations provide services for homeless individuals. Management spent 120 hours providing services to the Market Foundation, which provides programs and support for low-income and elderly residents in downtown Seattle. In addition, 100 hours each were spent supporting Bellwether Housing and Compass Housing Alliance, respectively. Each of these organizations supports the provision of affordable housing for individuals in downtown Seattle.

Responsiveness to Community Development Needs

TCBW demonstrates excellent responsiveness to the needs of its community and opportunities identified to support LMI individuals and families. The bank supports organizations providing affordable housing, food, and programs to support basic needs for low- and moderate-income individuals through its CD lending, donations, investments, and services. The bank also made loans to similar organizations both within the AA and in a broader statewide or regional area.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.