



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 17, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The State National Bank of Garfield
Charter Number 12231**

**301 California Street
Garfield, WA 99130**

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

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING

This institution is rated “**Outstanding**”.

The major factors that support this rating include:

- The average loan-to-deposit ratio of 86 percent exceeds the standards for satisfactory performance.
- A substantial majority of loans are in the bank's assessment areas.
- The distribution of loans reflects reasonable penetration among businesses of different sizes.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment areas.
- There were no public complaints about the bank's CRA performance.
- The bank originated \$4.26 million in community development loans and provides considerable community services.

DESCRIPTION OF INSTITUTION

State National Bank of Garfield (SNB) is a community bank with assets of \$54 million as of June 30, 2003. The bank's main office is in Garfield, Whitman County, Washington, and operates two branches in Spokane, Spokane County, Washington. The Spokane branches - Northpointe Branch and Spokane Valley Branch - were opened in April 1999 and January 2000, respectively. The bank has deposit-taking ATMs at each of the two Spokane branches.

SNB is a full-service bank offering loans, deposit accounts, and traditional banking services. The bank's primary business focus is meeting the banking needs of small businesses, farms, and consumers located in Spokane and Whitman Counties by providing competitive deposit products and a full line of commercial, consumer, and real estate loans. There are no material impediments that affect the bank's ability to meet the credit needs of its assessment areas.

Table 1 shows the composition of the bank's loan portfolio as of June 30, 2003:

Table 1

| LOAN PORTFOLIO COMPOSITION June 30, 2003* | |
|--|----------------|
| Loan Type | % of Portfolio |
| Commercial (including commercial RE) | 73% |
| Agriculture (including Farmland loans) | 10% |
| Residential Real Estate | 10% |
| Consumer | 7% |
| Total: | 100% |

*Source: 9/30/03 Call Report – Average Gross Loans

The last Community Reinvestment Act examination was conducted in November 1998, and the bank received a **Satisfactory** rating.

DESCRIPTION OF SPOKANE COUNTY AND WHITMAN COUNTY ASSESSMENT AREAS

The bank has two assessment areas. Spokane County contains the Spokane MA (#7840). Whitman County is not located in a MA.

Whitman County:

The Whitman County assessment area is comprised of 10 census tracts (0 low-income, 2 moderate-income, 4 middle-income and 4 upper-income). Low- and moderate-income and census tracts account for 20 percent of the total census tracts in the assessment area. Total population recorded in the 1990 U.S. Census for the assessment area was 38,775. In the 2000 U.S. Census Bureau information, the population of Whitman County increased to 40,740, a five

percent increase. The 2003 HUD estimated median family income was \$48,700. The bank's head office is located in a middle-income tract.

There is strong competition between financial institutions in Whitman County. There are four commercial banks based in Whitman County. Also, several branches of mid-sized and large commercial banks, and credit unions operate throughout the county.

Key economic elements in this area are farming and education. A majority of the land in Whitman County is farmed, and the county leads Washington in production of grains. Washington State University is located in Pullman and provides a stable employment base that pays relatively high wages.

Spokane County/Spokane MA #7840:

The Spokane assessment area is comprised of 99 census tracts (7 low-income, 23 moderate-income, 51 middle-income, and 18 upper-income). Low- and moderate-income census tracts account for 7 percent and 23 percent, respectively, of the total census tracts in the assessment area. Total population from the 1990 U.S. Census for the assessment area was 361,364. According to the U.S. Census Bureau, the 2000 population of the assessment area was 417,939, a 16 percent increase since 1990. The 2003 HUD estimated median family income for the area was \$54,600. The bank's two branches in Spokane are both located in middle-income tracts.

Competition among financial institutions is strong. There are five commercial banks based in Spokane County, branches of several mid-sized and large commercial and savings banks, and many local and statewide credit unions.

Key economic elements in this area are local, state and national government agencies including the U.S. Military, education, and healthcare. According to the November 2002 Journal of Business, Fairchild Air Force Base, Spokane School District #81, and Sacred Heart Medical Center are the top three employers in the county. The area has seen a decline in manufacturing and construction jobs recently, with the bankruptcy of the Kaiser Aluminum and personnel reductions at Boeing. The September 2003 unemployment rate was 6.3%.

In conjunction with this CRA examination, we conducted a community contact interview. Community contacts are interviewed to learn about credit opportunities within the community, and how well financial institutions address the credit and service needs of the community. The contact for this examination was a representative from a county small business economic development association. This representative indicated the need for affordable housing and small business financing, including such needs as down payment assistance, rehab, and home purchase programs and capital for small business start-ups.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio:

The loan-to-deposit (LTD) ratio demonstrates a willingness to lend. The bank's level of lending is more than reasonable given the bank's size, the credit needs of the assessment area (AA), and the competitive banking market within the AA. We analyzed the bank's quarterly LTD ratio from June 1997 to June 2003. During this period, the LTD ratio ranged from a low of 75 percent to a high of 96 percent, with an average of 86 percent.

The bank's LTD ratio was compared to peer banks that operate in one or both of SNB's assessment areas, and are considered direct competitors by the bank's management team. The peer group consists of eight competitors, ranging in total asset size from \$7 million to \$210 million. We analyzed the competition's quarterly LTD ratio over the same time period, and the group average was 78 percent. State National Bank of Garfield's average LTD ratio was 8 percent above the peer group average. SNB exceeds the standard for satisfactory performance.

Lending in Assessment Area:

A substantial majority of loans and other lending-related activities are in the bank's assessment area.

Analysis for lending in the AA included 2002 HMDA reportable loans and all commercial and industrial loans originated from January 1, 2000 through September 30, 2003. Table 2 demonstrates the distribution of loans originated inside and outside of SNB's assessment areas.

Table 2

| SPOKANE AND WHITMAN COUNTY ASSESSMENT AREAS HMDA Reportable and Commercial Loans 2000-2003 | | | | | | | | |
|--|------------|------------|---------------------|--------------|-------------------------|------------|---------------------|--------------|
| Inside Assessment Area | | | | | Outside Assessment Area | | | |
| Year | # of Loans | % of Loans | \$ (000's) of Loans | % of \$(000) | # of Loans | % of Loans | \$ (000's) of Loans | % of \$(000) |
| 2000 | 50 | 96% | 7,740 | 99% | 2 | 4% | 36 | 1% |
| 2001 | 87 | 93% | 12,518 | 95% | 7 | 7% | 637 | 5% |
| 2002 | 208 | 87% | 28,402 | 81% | 30 | 13% | 6,574 | 19% |
| 2003 | 73 | 92% | 8,301 | 95% | 6 | 8% | 412 | 5% |
| Total Loan Sample | 418 | 90% | \$56,961 | 88% | 45 | 10% | \$7,659 | 12% |

As demonstrated in Table 2, both in number of loans and dollar volume, the bank originated a substantial majority of its loans within the assessment area. The bank's lending to consumers within the assessment area exceeds the standard for satisfactory performance.

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

The bank's distribution of loans, given the demographics of the assessment area, reflects reasonable penetration among businesses of different sizes.

The random sample included 40 commercial loans for the Spokane County AA and 20 commercial loans for the Whitman County AA. These loans were originated between May 2000 and August 2003, and were within the bank's assessment area. We selected this loan product for review because the bank is primarily a commercial lender. Please refer to Table 1 for a breakdown of the bank's loan portfolio by product category.

We compared the bank's lending to businesses in the assessment area to the demographics of small businesses of the assessment area. Small businesses are those with gross revenues of \$1 million or less. Updated business demographics provided by Dun & Bradstreet reflect that 92 percent of the businesses in the Spokane County AA, and 94 percent of the businesses in the Whitman County AA are small businesses. Table 3 reflects the distribution of commercial lending by business revenue size in Spokane County.

Table 3

| DISTRIBUTION OF COMMERCIAL LOANS BY ANNUAL REVENUE SPOKANE COUNTY YEARS 2000-2003 | | | | | |
|--|-------------------|-------------------|----------------------------|---------------------|-------------------------------|
| Revenue Size | # of Loans | % of Loans | \$ (000's) of Loans | % of \$(000) | % of Businesses in AA* |
| Business <= 1 Million | 31 | 78% | \$2,372 | 48% | 92% |
| Business > 1Million | 9 | 22% | \$2,586 | 52% | 8% |
| Total Loan Sample: | 40 | 100% | \$4,958 | 100% | 100% |

*Source: 2003 Dun & Bradstreet

Lending to businesses with revenues under \$1 million is well below the demographics of the AA; however, the bank has less than one percent of the market share in Spokane and Whitman Counties combined. The bank targets its lending to small businesses, and has been recognized as a leader by the SBA for the entire state of Washington, and in particular Spokane and Whitman Counties. Spokane SBA data indicates that SNB was third out of 46 institutions operating in the Spokane area based in dollar volume of approvals for the fiscal year ending 9/30/02. Also, the December 2002 issue of Washington CEO named SNB number 22 out of all SBA lenders in Washington State for dollar volume of approvals of 7(a) Guarantee Program loans between 10/1/01 and 9/30/02.

State National Bank of Garfield is a participating lender in the Spokane Area Small Business Loan Program. The program is a collaborative effort between SNB and eight other participating

lenders, the Northwest Business Development Association, and the SBA. The program is targeted toward small businesses around the area, increasing SNB's exposure to small businesses that may not have been previously aware of SNB. The bank has funded four loans through this program.

Table 4 reflects the distribution of commercial lending by business revenue size in Whitman County.

Table 4

| DISTRIBUTION OF COMMERCIAL LOANS BY ANNUAL REVENUE WHITMAN COUNTY YEARS 2000-2003 | | | | | |
|--|-------------------|-------------------|----------------------------|---------------------|-------------------------------|
| Revenue Size | # of Loans | % of Loans | \$ (000's) of Loans | % of \$(000) | % of Businesses in AA* |
| Business <= 1 Million | 18 | 90% | \$1,002 | 59% | 94% |
| Business > 1 Million | 2 | 10% | \$700 | 41% | 6% |
| Total Loan Sample: | 20 | 100% | \$1,702 | 100% | 100% |

* Source: 2003 Dun & Bradstreet

As demonstrated above, lending in the Whitman County AA reflects reasonable penetration among businesses of different sizes.

Geographic Distribution of Loans:

The geographic distribution of loans exceeds standards for satisfactory performance.

We reviewed the pattern for geographic distribution of lending between low- and moderate-income tracts within the assessment areas. Tables 5 and 6 detail the bank's commercial lending activity within the AA. We used the same sample of commercial loans from the **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes** section of this report.

Table 5

| GEOGRAPHIC DISTRIBUTION OF COMMERCIAL LOANS SPOKANE COUNTY AA YEARS 2000-2003 | | | | | |
|--|-------------------|-------------------|----------------------------|---------------------|-------------------------------|
| Income of Tract | # of Loans | % of Loans | \$ (000's) of Loans | % of \$(000) | % of Businesses in AA* |
| Low Income | 0 | 0% | \$0 | 0% | 4% |
| Moderate Income | 18 | 45% | \$2,321 | 47% | 37% |
| Middle Income | 13 | 33% | \$2,123 | 43% | 37% |
| Upper Income | 9 | 22% | \$515 | 10% | 22% |
| Total Loan Sample: | 40 | 100% | \$4,958 | 100% | 100% |

*Source: 2003 Dun & Bradstreet

Based on our review of 40 commercial loans within the Spokane County AA, the sample indicates a lack of penetration in low-income census tracts. However, SNB does not have a physical presence in these areas or within a convenient distance around these areas. Despite the lack of physical presence, the bank originated a \$1.6 million loan in a low-income census tract. We evaluated this loan based on community development guidelines; therefore, it was excluded from our sample. This loan indicates that the bank is meeting the needs of low-income tracts in its AA. For more information regarding this loan, please see the **Qualified Community Development Loans and Services** section of this performance evaluation.

Penetration of moderate-income census tracts in the Spokane County AA exceeds standards. The sample indicates that SNB makes approximately 45% of the total number of loans, and 47% of the total dollar volume of commercial loans to businesses located in moderate-income census tracts. Thirty-seven percent of the businesses in the Spokane County AA are located in moderate-income census tracts.

Table 6

| GEOGRAPHIC DISTRIBUTION OF COMMERCIAL LOANS WHITMAN COUNTY YEARS 2000-2003 | | | | | |
|---|-------------------|-------------------|--------------------------------|---------------------|-----------------------------------|
| Income of Tract | # of Loans | % of Loans | \$ (000's) of Loans | % of \$(000) | % of Businesses in AA* |
| Low Income | 0 | 0 | 0 | 0% | 7% |
| Moderate Income | 0 | 0 | 0 | 0% | 8% |
| Middle Income | 18 | 90 | \$1,571 | 92% | 49% |
| Upper Income | 2 | 10 | \$131 | 8% | 36% |
| Total Loan Sample: | 20 | 100% | \$1,702 | 100% | 100% |

*Source: 2003 Dun & Bradstreet

The sample indicates an appearance of a lack of lending to businesses located in low- or moderate-income areas within the county. However, the low- and moderate- income areas are where the Washington State University campus and student housing are located. This is over 25 miles from SNB's branch in Garfield. Also, three large institutions and several small banks and credit unions compete for business in this area. The failure to lend to businesses in the low- and moderate-income census tract is the result of the bank's location, and limited lending opportunities in those tracts.

Qualified Community Development Loans and Services:

Community Development Loans:

SNB has recently originated \$4.26 million in community development loans, representing 75 percent of Tier 1 capital. These community development loans funded projects in both Spokane and Whitman Counties. Projects focus both on providing housing and services to low-income

individuals, and on promoting economic development and revitalization of LMI areas. The following are notable community development loans originated by SNB:

- \$1.25 million to develop an assisted living facility providing housing and services to low-income seniors. The project was developed under the Robert Wood Johnson Foundation “Coming Home Program” of the DSHS Aging and Disability Services Administration. The project also provided 17 jobs in the rural community. The bank was the lead lender for the project, and also donated some of the property that the facility was built on.
- \$1.55 million to refinance and renovate commercial real estate. The real estate is located in a moderate-income tract, and the small business that operates in the building employs 50 residents of the local community.
- \$1.46 million for renovation of previously vacant buildings and development of two parcels into office space in a low-income census tract.

Community Development Services:

SNB and its employees provide a high level of community development services in both the Spokane County and Whitman County assessment areas. SNB’s community development services focus on economic development and services to low-income individuals. Employees are individually involved in several community development services, often in leadership positions. Below are examples of several employees' involvement in services to their communities:

- A bank officer is on the Board of Directors acting as Treasurer and Finance Committee Chairman for an organization that provides shelter for homeless and low-income individuals.
- A bank officer was the Event Chairman, raising funds for low-income and homeless individuals.
- A bank officer is a member of a business development organization that focuses on small business development.
- A bank officer is on the Founding Committee and has served as the Secretary and the Past Chair of an organization that provides small businesses with information about the SBA 504 Loan Program.
- A bank officer is on the Board of Directors of a business development organization that focuses on small businesses and economic development of the Spokane area.
- A bank officer is currently a member and past State Vice President of a revolving loan fund that focuses on rural entrepreneurship.
- A bank officer is the president of a development corporation that focuses on rural areas of Whitman County.
- A bank officer has served as the director of an economic development fund serving three counties in southeastern Washington.
- A bank employee donates time to a local area food bank that provides meals to homeless and low-income individuals and families.

Responses to Complaints:

SNB has not received any written complaints associated with its performance under the Community Reinvestment Act.

Fair Lending or Other Illegal Credit Practices Review:

We found no evidence of illegal discrimination or other illegal credit practices.