



Comptroller of the Currency
Administrator of National Banks

Small
Bank

PUBLIC DISCLOSURE

November 30, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

**301 California
Garfield, Washington 99130**

**Comptroller of the Currency
1501 4th Avenue, Suite 1190
Seattle, WA 98101**

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.</p>

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **The State National Bank of Garfield** prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of December 11, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated satisfactory.

The State National Bank of Garfield demonstrates a reasonable loan-to-deposit percentage given the bank's size, its capacity to lend, and the market in which it operates. A majority of the bank's lending is within its assessment area and reflects a reasonable geographic distribution of loans. The bank's lending to businesses and farms of different sizes is reasonable considering the demographics of Whitman County. The bank complies with the provisions of anti-discrimination laws and has not received any written consumer complaints associated with the bank's performance under the CRA.

Description of Institution

State National Bank of Garfield (SNB) is a community bank with assets of \$14 million as of November 1998. The bank operates one office in Garfield, Whitman County, Washington. It has no branches or automated teller machines.

There are no material impediments that affect the bank's ability to meet the credit needs of its assessment area. As of September 30, 1998, total loans outstanding were \$9.7 million and total equity capital represented 27.5% of total assets.

SNB's primary business focus is lending to small farms, their owners and families. As of September 30, 1998, the loan portfolio consisted of 45% agricultural loans, 27% business loans, 20% real estate loans, and 8% consumer loans by dollar amount. Due to the bank's small size and rural location, it does not have the capacity nor demand to originate significant volumes of residential loans. Most are made on an accommodation basis for existing customers. For this examination, we evaluated CRA performance based on lending to small farms and small businesses.

Institutions competing for business in Whitman County include other community banks and branches of large commercial banks. As of June 30, 1997, branches of Bank of America, U.S. Bank of Washington, and Washington Mutual Savings Bank held 57% of the deposits in the county. SNB's market share was 3%.

SNB received a Satisfactory rating for meeting the community's credit needs at the previous OCC examination in August 1996.

Description of Assessment Area

The bank's assessment area includes all of Whitman County. Key economic elements are farming and education. Whitman County leads Washington in the production of grains and the majority of the land in the county is farmed. Farm workers constitute only about 3 percent of the county's workers as the local crops in Whitman County are capital rather than labor intensive. The largest county employer is Washington State University (WSU) located in Pullman with 2,000 employees. It provides a stable employment base that pays relatively high wages.

Employment growth has been modest. Data from the State of Washington shows that over the past three years, nonagricultural employment has increased about 1 percent per annum and stands at about 18,000 workers. Agricultural employment data is unavailable. Unemployment in Whitman County is nominal. It has generally been 2% or less since 1990.

The county population was 38,775 at the 1990 US Census. It has grown slowly, less than 1 percent per annum, and is currently estimated by the State Employment Security Department at 41,400. A majority of the population resides in Pullman. In 1990 this was 20,596 which represented 53% of the total county population.

The county comprises ten census tracts and is not located within a Metropolitan Statistical Area. Six of the ten tracts encompass the town of Pullman where WSU is located. The income levels of these census tracts are upper and moderate. The remaining four census tracts which are middle income and encompass the bulk of Whitman County which is primarily rural with a few small farming communities. The bank's assessment area meets the requirement of the regulation and does not arbitrarily exclude any low or moderate income geography.

We conducted one community contact in the bank's assessment area to learn about credit needs within the area and how well financial institutions are addressing those needs. The contact represented a business group. The contact confirmed a need for a locally-owned community bank which is responsive to the credit needs of the local farmers and their families. This individual stated that the economies of the farming communities are heavily dependent upon stable farm prices and that banks should be flexible during distressed times.

The following chart summarizes the assessment area demographics by population and number of small businesses and small farms. Small businesses and farms are defined as having annual gross revenues of \$1 million or less.

Assessment Area Characteristics								
Income Level of Census Tracts	Number of Census Tracts	1990 Census Population	Families		Small Business		Small Farms	
			#	%	#	%	#	%
Low	0	-	-	-	-	-	-	-
Moderate	2	7,655	669	9%	32	5%	0	
Middle	4	12,941	3,735	49%	381	52%	94	85%
Upper	4	18,179	3,181	42%	316	43%	17	15%
Total	10	38,775	7,585	100%	729	100%	111	100%

Conclusions with Respect to Performance Criteria

Loan to Deposit Percentage

SNB's loan-to-deposit (LTD) percentage is reasonable given the bank's size, its capacity to lend, and the market in which it operates.

We analyzed SNB's LTD percentage over the period April 1, 1996 through March 31, 1998. During these eight quarters, the bank's LTD percentage ranged from a low of 50.8% at December 31, 1996 to a high of 81.5% at March 31, 1998 with an average percentage of 71.3%.

We compared this LTD percentage to that of the three community banks in Whitman County that focus on agricultural lending. On average, the LTD percentage for these banks was 93%, and their average asset size was \$25 million. In contrast, the average LTD for National banks in Washington State is 70.9% for this period, and 81.5% for State banks. Our review noted that the LTD percentage of SNB has been increasing and exceeded 90% the past two quarters.

Percentage of Lending in the Assessment Area

Based on bank data, it originated a total of 362 loans of all types since our previous examination in August 1996. The bank does not routinely compile the geographic location of its loans. As a result, we sampled a portion of the business and farm loans to determine the number and dollar volume of loans originated within the assessment area. We drew this sample from loan originated from September 1996 to November 1998. This is our assessment period. Our loan sample included 25 farm loans and 14 business loans which represents more than 10% of total loan production over the assessment period. Based on this sample, 87% by number and 93% by dollar were originated within the assessment area. These high percentages indicate the bank originates a substantial majority of its loans within the assessment area.

Distribution of Loans to Farms & Businesses of Different Sizes

SNB's primary lending focus is to small farms and small businesses. Thus, our analysis of the banks' lending performance gives the most weight to these loan categories. Small farms and small businesses are defined as entities which generate gross annual revenues of \$1 million or less.

Over the assessment period, the bank originated 362 loans totaling \$11.8 million. We analyzed a sample of these loans to estimate the distribution of the bank's business and farms loans among borrowers of different sizes. Our sample consisted of 39 loans, of which 34 were made within the assessment area. The following table shows the distribution of the farm and business loans we reviewed by revenue size.

Distribution of Farm and Business Loans by Revenue Size of Farm/Business

Gross Annual Revenues 000's	# of Business/Farms in Assessment Area(1)	% of Business/Farms in Assessment Area	# of Loans Reviewed	% of Loans Reviewed
0 - \$250	840	92%	27	79%
\$251-\$500			2	6%
\$501 - \$1 million			2	6%
over \$1 million	71	8%	3	9%
Total	911	100%	34	100%

(1): This information is based on 1997 Dunn & Bradstreet data.

The data reflects a reasonable distribution of loans to farms and businesses of different sizes. Given the demographics of the area, SNB's lending reflects a good penetration among small farms and small businesses. Based upon our sample, 91% of the loans were made to small farms and businesses. This compares favorably to 1997 aggregate business data which shows 92% of the farms and businesses in the assessment area have annual revenues of \$1 million or less.

Geographic Distribution of Loans

The distribution of farms and business loans is reasonable, though it is not proportionate to the distribution of the census tracts within the assessment area, as evidenced by the following table. Based upon our sample, each of the business and farm loans was originated in the census tract where the bank is located or in three adjacent census tracts, all of which comprise middle income census tracts.

Assessment Area Geographic Distribution			
Income level of tract	% of total tracts	# of business/farm loans	% of total loans
Low	0	0	0
Moderate	20%	0	0
Middle	40%	34	91%
Upper	40%	0	0
Total	100%	34	91%

The bank's assessment area consists of ten census tracts. Six of the tracts are located in Pullman which is 25 miles from the bank. Four are upper income tracts and two are moderate. There are no low income tracts. According to current FDIC information, Pullman is served by one community bank and branches from three multi-state banks. SNB has made the reasonable conclusion that the city of Pullman is not in its immediate marketing area and has adequate banking services. We concur with management's conclusion. However, we suggested they may want to revise their assessment area to more accurately reflect the market which the bank actually serves.

Discriminatory Practices

We conducted a concurrent fair lending examination and found no evidence of discriminatory lending practices. The bank complies with the provisions of anti-discrimination laws and regulations.

Review of Complaints

There were no written consumer complaints associated with the bank's performance under the Community Reinvestment Act.