

PUBLIC DISCLOSURE

October 18, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Redmond National Bank
Charter: #18746**

**15801 NE 85th Street
Redmond, Washington 98052**

Comptroller of the Currency

**Western District
50 Fremont Street, Suite 3900
San Francisco, California 94105
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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.

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 Community Reinvestment Act (CRA) performance of **Redmond National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of October 18, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

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

Redmond National Bank (RNB) demonstrates satisfactory performance of meeting the credit needs within its identified market. We assigned this rating based on the following factors:

- RNB’s average loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and the credit needs of the assessment area.
- RNB originates the majority of its loans within its identified assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the bank’s assessment area.
- RNB demonstrates a reasonable penetration of lending to businesses of different sizes, given the demographics of the assessment area and the bank’s business strategy.

The following table indicates the performance level of **Redmond National Bank** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>REDMOND NATIONAL BANK</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		x	
Lending in Assessment Area		x	
Lending to Borrowers of Different Incomes and to businesses of Different sizes		x	
Geographic Distribution of Loans		x	
Response to Complaints	No complaints received since the prior examination.		

DESCRIPTION OF INSTITUTION:

Redmond National Bank (RNB) is an independent commercial community bank located in the city of Redmond, Washington. The bank opened in 1988 and is a wholly owned subsidiary of Washington Commercial Bancorp. The bank's primary market is the city of Redmond, which is located approximately 15 miles east of Seattle, and includes surrounding communities. RNB offers a variety of retail bank products and services, including commercial, consumer, and real estate loan products. RNB operates from one banking office located in downtown Redmond, Washington, in King County. The bank has not opened or closed any branches since its inception.

Redmond is the fourteenth largest city in the state of Washington with an economic base centered in high technology industry and manufacturing. Redmond's job base represents approximately 40,000 employees, nearly equivalent to the population of the city of Redmond. Major high technology industry employers include Microsoft Corporation, Nintendo of America, Spacelabs Medical, Inc. and Digital Systems International, Inc.

The city of Redmond's population grew 11.8%, from 35,580 in 1990, to 40,030 in 1995. Population growth is expected to continue to approximately 68,000 by the year 2012. The average sales price of a single-family home in Redmond in 1994 was \$211,648. The average price of a home in surrounding communities, ranged from \$206,000 to \$392,000 that same year. These average home prices are high for the Seattle area.

In 1995, the city of Redmond had 17,034 housing units with approximately 50% single-family homes and 50% multiple-family units. The population growth has resulted in low vacancy rates, 2.5% for single-family homes and 9.6% for multiple-family units.

Current commercial growth is primarily in retail expansion with the construction of a new shopping center in process. Expected completion is in Fall 1997. The new Redmond Town Center is expected to attract new small businesses and provide more service oriented jobs.

The bank's last CRA performance evaluation date was June 2, 1993, when it received a "Satisfactory" rating for meeting the community's credit needs. Since the last examination, the bank has experienced growth in both loans and deposits. RNB is in sound financial condition with total assets of \$44MM as of June 30, 1996. Other than its size, RNB has no factors impeding its ability to help meet the credit needs within its assessment area.

RNB'S primary business focus is small business lending, and therefore makes the majority of its loans to businesses. In 1995, loans originations exceeded \$19 million. On October 1, 1996, year-to-date loan originations were approximately \$13 million. Based on these 1996 loan originations, new commercial loans totaled \$11,261,897, which represents 80.96% of new loans, compared to \$2,647,639 in new consumer loans, or 19.04% of total loans originated to date in 1996. The significant commercial loan percentage (80.96%) is evidence of the bank's primary business focus. Our Community Reinvestment Act evaluation targeted the bank's lending performance in meeting the small business credit needs within its assessment area.

During our examination, we interviewed four community contacts. One representative of a local community development organization provided information on the affordable housing needs in the community, but had little input on local credit needs. This information is not presented in this evaluation and is not relevant to the bank’s significant business focus.

The other two commentors provided relevant information about local credit needs. One contact did not have sufficient information to comment on the personal banking needs of his organizations members, but did provide personal observations on local credit needs. The other contact was able to provide similar information. Both of these contacts said that some individuals in the local business community view Redmond National Bank negatively compared to other banks in the community as a source of loans.

DESCRIPTION OF ASSESSMENT AREA :

RNB’s assessment area consists of portions of the Seattle-Bellevue-Everett, King County Metropolitan Statistical Area (MSA) #7600. Based on the 1990 Census Data, the assessment area includes 41 census tracts with a total population of 247,934. The assessment area is comprised of no low income census tracts, two moderate income census tracts, twenty middle income census tracts, and nineteen upper income census tracts, based on 1990 Census Median Family Income of \$43,103. The following table shows the census tract population distribution by income level.

Income Characteristic Of Census Tract	# Of Total Census Tracts	% Of Total Census Tracts	% Of Population
Low Income (<50% of CMFI)*	0	0.00%	0.00%
Moderate Income (50% - 80% of CMFI)*	2	4.88%	4.15%
Middle Income (80% - 120% of CMFI)*	20	48.78%	48.63%
Upper Income (> 120% of CMFI)*	19	46.34%	47.22%
Total	41	100.00%	100.00%

* Income categories are based on the 1990 Census Median Family Income (CMFI) of \$43,103.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

- LOAN TO DEPOSIT RATIO**

RNB’s average loan-to-deposit ratio was 66.21% for the period of July 1, 1993 to June 30, 1996. Nine banks of similar size (\$27 million to \$75 million in assets) and located within the same MSA have a combined average loan-to-deposit ratio of 73.78%. These peer bank

average loan-to-deposit ratios ranged from the low of 62.83% to a high of 82.64% over this period.

RNB's loan-to-deposit ratio declined from its high of 80.54% at 12/31/94 to its low of 58.00% at June 30, 1996 due to rapid deposit growth in 1995 and 1996. Deposits grew approximately 73% in 1995, while loans grew approximately 20% the same year. Deposit growth slowed down in 1996, averaging 25% from June 30, 1995 to June 30, 1996.

Compared to nine banks of similar size and location within the same MSA, Redmond National Bank's average loan-to-deposit ratio, is reasonable given the bank's size, financial condition and growing market.

• **LENDING IN ASSESSMENT AREA**

We tested a random sample of 32 commercial loans that RNB originated between June 1, 1993 and October 1, 1996, with a total origination amount of \$3,117,841. We targeted our analysis on the commercial lending portfolio due to the bank's business focus in small business lending.

Based on our loan sample, RNB demonstrates satisfactory lending performance in its assessment area. We found 25 of the 32 loans sampled, representing 78.1% of the sample originated within the bank's assessment area. This percentage indicates that the majority of the bank's lending is meeting the credit needs within its identified market area.

LENDING TO BUSINESSES OF DIFFERENT SIZES

Redmond National Bank demonstrated reasonable loan penetration among businesses of different sizes within the its assessment area. Based on the loan sample, the following table shows that 72% of the loan originations sampled were made to small businesses, which generate gross annual revenues of \$1 million or less .

BUSINESS LOANS SAMPLED WITHIN THE ASSESSMENT AREA, BY BUSINESS SIZE

Revenue Characteristics Of Borrower	# Of Business Loans	% Of Business Loans
Revenues <= \$1MM*	18	72.00%
Revenues > \$1MM	7	28.00%
Total	25	100.00%

* Small businesses, for CRA purposes, generate gross annual revenues of \$1 million or less.

This percentage indicates that RNB originated a majority of its commercial loans to small businesses. Given the bank's small business lending focus, its commercial lending patterns meet the standards for satisfactory performance.

The following table details the size of businesses that RNB extended credit, based on the 25 sampled loans within the assessment area. A total of 18 of the 25 loans were made to small businesses. The table further breaks down the small businesses by gross annual revenues.

**COMMERCIAL LOANS WITHIN THE ASSESSMENT AREA
TO BUSINESSES OF DIFFERENT SIZES**

Business Gross Annual Revenues (M=000's)	# of Loans	% of Total Number of Business Loans	Business Size by Gross Annual Revenues	Total Businesses Operating in the Assessment Area, By Revenue Size	% of Total Businesses Located within the Assessment Area
\$0 <= \$500M	11	44.00%	\$0 - \$500M	7,902	60.56%
\$500M >= \$1,000M	7	28.00%	\$500M >= \$1,000M	1,237	9.48%
<= \$1,000M, Not Further Detailed	-	-	<= \$1,000M, Not Further Detailed	2,108	16.15%
Loans to Small Businesses	18	72.00%	Total Small Businesses in AA	11,247	86.20%

> \$1,000M Large Businesses	7	28.00%	Total Large Businesses in AA	1,800	13.79%
Total Comm'L Loans In AA	25*	100.00%	Total # of Businesses in AA	13,047**	100.00%

* Represents 25 of 32 Loans Sampled, which originated between June 1, 1993 and October 1, 1996.

** Total businesses located within the 41 census tracts included in the bank's assessment area (AA), based on 1996 Dunn & Bradstreet information.

Based on 1996 business demographic information, the table above shows that a significant majority of the businesses located within the bank's assessment area generate gross annual revenues equal to or less than \$1 million. The bank's small business lending patterns indicate that a reasonable percentage of business loans were made to businesses of different sizes.

- **GEOGRAPHIC DISTRIBUTION OF ALL LOANS**

The bank's geographic distribution of loan originations reflects reasonable dispersion throughout the assessment area. Based on the 32 loans sampled, 25 loans originated inside the assessment area. The distribution of loans sampled was even at 28% in both moderate and upper income census tracts, and 44% in middle income census tracts.

RNB is located in census tract #323.09, one of the two moderate income census tracts within the assessment area. Based on business demographic data generated from Dunn & Bradstreet information, this census tract contains 12.24% of the businesses located within the assessment area. Of the 25 loans originated within the assessment area, 7 of the 25 loans, or 28% were made within this moderate income census tract, no loans sampled were found in the other moderate income census tract.

The following table illustrates the distribution of these business loans among the census tracts by income category.

**GEOGRAPHIC DISTRIBUTION OF LOAN
ORIGINATIONS WITHIN THE ASSESSMENT AREA**

INCOME CHARACTERISTIC OF CENSUS TRACT	% OF TOTAL CENSUS TRACTS	# OF TOTAL LOANS	% OF TOTAL LOANS
Low Income (<50% of CMFI)*	0.0%	0	0.0%
Moderate Income (50% - 80% of CMFI)*	4.8%	7	28.0%
Middle Income (80% - 120% of CMFI)*	48.8%	11	44.0%
Upper Income (> 120% of CMFI)*	46.4%	7	28.0%
TOTAL	100.0%	25	100.0%

**Based on 1990 Census Median Family Income (CMFI) Of \$43,103.*

- **RECORD OF COMPLAINTS AND COMPLIANCE WITH ANTI-DISCRIMINATION LAWS**

Redmond National Bank did not receive any complaints related to its Community Reinvestment Act performance since our last examination in June 1993.

We did not identify any violations of the anti-discrimination laws and regulations. The bank's lending policies and employee training program are designed to ensure that no discriminatory credit practices occur.

- **BANK SERVICES**

During 1995, the Senior Loan Officer of RNB provided technical expertise by serving on the Loan Approval Committee for the Washington Community Reinvestment Association (WCRA). WCRA is a consortia of approximately 35 banks organized for the purpose of pooling funds to finance affordable housing projects throughout the state of Washington. Redmond National Bank participated in 28 WCRA loans for total of \$45,000 since June 1994. The bank's participation in these loans is based on a pro rata share by asset size. Two of these loans funded projects located within the assessment area, resulting in a direct benefit to the bank's community.