



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**January 31, 2005**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Washington State Bank, National Association  
Charter Number 23709**

**32303 Pacific Highway South  
Federal Way, WA 98003**

**Comptroller of the Currency  
San Francisco Field Office  
One Front Street, Suite 1000  
San Francisco, CA 94111**

**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 major factors that support this rating include:

- ❑ The average loan-to-deposit ratio of 83% is reasonable.
- ❑ A substantial majority of loans are in the bank's assessment area.
- ❑ Business loan distribution reflects reasonable penetration among businesses of different sizes and borrowers of different income levels.
- ❑ Geographic loan distribution reflects excellent dispersion throughout the assessment area.
- ❑ There have not been any public complaints about the bank's CRA performance.

## DESCRIPTION OF INSTITUTION

Washington State Bank, N.A. (WSB) is a community bank located in the city of Federal Way, Washington. WSB is a wholly owned subsidiary of Western Washington Bancorp (WWB), which is located at the main office of WSB. As of December 31, 2004, the bank had assets of \$58 million and net loans totaling \$43 million. The percentage of net loans to total assets is 74%. The bank closed one branch in January 2003, which was four miles away from their main office and has opened no new branches since the last evaluation period.

Washington State Bank is a full-service community bank offering a variety of retail banking products and services such as VISA debit cards, 24-hour telephone banking, and postage-paid envelopes for customers to bank by mail. An automated teller machine (ATM), which accepts deposits, is located at the main office.

WSB offers a broad range of credit products to small- and medium-size business customers and consumers. Credit products include commercial and consumer loans, real estate and construction, and Small Business Administration guaranteed loans (“SBA Loans”). During the assessment period, the bank originated one 504 loan and sixteen 7(a) SBA loans totaling \$3.8 million. The SBA 7(a) program is a federal government sponsored program that provides loan guarantees for profit-motivated small businesses that otherwise could not obtain a conventional bank loan. There are currently no legal, financial, regulatory, or other factors impeding the bank’s ability to meet the credit needs of its assessment area.

Table 1 lists the outstanding balance of the bank’s major loan products as of December 31, 2004.

Table 1

<b>LOAN PORTFOLIO COMPOSITION December 31, 2004</b>	
<b>Loan Type</b>	<b>% of Portfolio</b>
Commercial (including commercial RE)	69%
Agriculture (including Farmland loans)	0%
Residential Real Estate	10%
Consumer	21%
<b>Total:</b>	<b>100%</b>

\*Source: Bank Compiled Data as of 12/31/04 –Number of Loans

Commercial loans are the bank’s primary loan product, so we reviewed a sample of commercial loans originated between January 1999 and December 2004. We also reviewed Home Mortgage Disclosure Act (HMDA) reportable originations and refinanced loans during the period January 2000 through December 2003. HMDA requires certain mortgage lenders that do business or have banking offices in metropolitan statistical areas to file annual summary reports of their mortgage lending activity.

The percentage of the bank’s assessment area defined as low-and moderate-income (LMI) according to the U.S. Census increased from 19% in 1990 to 22% in 2000. In order to improve the accuracy of our results and compensate for that change, we compared loans originated

between 2000 and 2002 to the 1990 Census data, and loans originated during 2003 and 2004 to the 2000 Census data.

WSB received a "Satisfactory" rating during its previous performance evaluation dated January 18, 2000.

*Please refer to the bank's CRA public file for more information about the institution.*

## **DESCRIPTION OF KING AND PIERCE COUNTIES**

The bank's assessment area (AA) consists of a portion of the Seattle-Bellevue-Everett Metropolitan Statistical Area (MSA) 42660 (King County) and all of the Tacoma MSA 45140 (Pierce County). The majority of the assessment area consists of King County, which accounts for 70% of the census tracts. According to the 2000 U.S. Census, the AA population is 2.4 million, an increase of 16% since the 1990 U.S. Census. There are 531 census tracts within the assessment area, 3% are low-income tracts, 19% are moderate-income, 53% are middle-income tracts, and 25% upper-income tracts. The updated 2004 U.S. Department of Housing and Urban Development (HUD) MSA median family income for the assessment area is \$68,613. The bank's assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income census tracts.

Major employment sectors in the assessment area include aircraft manufacturing, computer and data processing services, forest products, medical services, and residential and commercial building construction. Major employers for the area include Boeing, Microsoft, and Weyerhaeuser. Employment has demonstrated strong growth over several recent years and area unemployment over this time has characteristically remained below the national average. Recent unemployment rates in King County have exceeded the national average; however, these have generally lagged the Washington statewide percentage that has risen above 7%. Ongoing downsizing at Boeing has intensified concerns for the local economy.

Competition from other financial institutions is significant, with numerous commercial banks, savings and loans, credit unions, and mortgage companies vying for business.

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 included a representative from a community development financial institution that serves the small business needs in the northwest section of Washington. The contact identified a need for investments or donations in their organization to fund loans for disadvantaged, yet hard-working small businesses. There is a need for small business financial education and loans to support start-up businesses.

*Please refer to the bank's CRA public file for more information about the assessment area.*

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

The loan-to-deposit (LTD) ratio is an indicator of a bank's willingness to lend. The bank's degree of lending is reasonable given its size, the credit needs of the assessment area, and the competitive banking market within the assessment area. We analyzed the bank's quarterly LTD ratio from December 1999 to September 2004. During this period, the LTD ratio averaged 83%.

We compared the bank's LTD ratio with that of peer banks operating in King and Pierce Counties that have similar demographics, asset size, and lending products. This peer group consists of seven financial institutions, ranging in total asset size from \$56 million to \$150 million. The average quarterly LTD ratio for the peer group was 81%, compared to 83% for WSB. The bank's LTD ratio is reasonable and meets the standard for satisfactory performance.

### **Lending in Assessment Area**

A substantial majority of loans and other lending-related activities occur in the bank's assessment area (AA).

Analysis for lending in the assessment area included a sample of 20 commercial loans originated from January 2003 through December 2004, and all HMDA reportable consumer real estate loans originated during the years 2000-2003. We found 90% of loans (by number) and 94% (by dollar volume) were originated within the AA. In order to meet the standard in this performance criterion, the bank needs to originate at least 50% of its loans within their assessment area. Consequently, the bank's lending to businesses within the assessment area exceeds the standard for satisfactory performance.

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

Given the demographics of the assessment area, the bank's distribution of loans reflects reasonable penetration among borrowers of different income levels and businesses of different sizes.

We selected a random sample of 20 commercial loans and all HMDA reportable loans to evaluate the bank's performance. The loans reviewed were within the bank's assessment area. 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. Table 2 displays the bank's lending practices based on our sample of commercial loans.

Table 2

<b>Income Distribution of Loans to Businesses King / Pierce County Assessment Area Years 2003-2004</b>		
<b>Business Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>
<b>% of AA Businesses*</b>	<b>68%</b>	<b>6%</b>
% of Bank Loans in AA by #	70%	30%
% of Bank Loans in AA by \$	59%	41%

\* Demographic Data Source: 2004 Dun & Bradstreet - 26% of AA businesses did not report revenue data

The number of loans originated to small businesses is consistent with the demographics of the AA. However, the dollar volume is below. This is reasonable since businesses with revenues greater than \$1 million generally tend to borrow larger sums of money. In addition, 30% of the loans to small businesses had revenues less than \$250,000 indicating the bank's support of micro-business lending needs. Lending to businesses of different sizes is consistent with the demographics and meets the standard for satisfactory performance.

Table 3 details the bank's percentage of the number of home loans originated during the evaluation period and that data is compared to the percentage of an AA's families that are in each of those income levels. Income levels are based on a percentage of the HUD median family income (MFI) for the assessment area. Low-income families are defined as having income below 50% of MFI and moderate-income families have income of at least 50%, but less than 80% of MFI.

Table 3

<b>Borrower Distribution of Residential Real Estate Loans King / Pierce County Assessment Area</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
	% of Number of Loans	<b>% of AA Families</b>						
2000 – 2002 Sample <sup>1</sup>	7%	<b>17%</b>	19%	<b>18%</b>	22%	<b>26%</b>	48%	<b>39%</b>
2003 – Sample <sup>2</sup>	10%	<b>18%</b>	20%	<b>18%</b>	40%	<b>24%</b>	10%	<b>40%</b>

Demographic Data Source : <sup>1</sup> 1990 U.S. Census; 4% of sample did not have income data

<sup>2</sup> 2000 U.S. Census; 20% of sample did not have income

Table 3 indicates that the bank's lending to low-income families is below the demographics of the AA, while lending to moderate-income individuals is consistent with the demographics. It is important to note that 8% of the low-income families earn wages below the poverty level.

During the evaluation period, the bank originated 14 mobile home loans totaling \$727,000, which traditionally provides housing for low- and moderate-income individuals. In addition, the bank is primarily a commercial lender and some residential real estate loans originated are based on relationships with commercial borrowers, which tend to have a higher MFI. Overall lending to borrowers of different income levels meets the standard for satisfactory performance.

**Geographic Distribution of Loans**

The geographic distribution of loans reflects excellent dispersion throughout the assessment area. We did not identify any conspicuous gaps in the bank’s lending to low- and moderate-income areas.

We reviewed the pattern for geographic distribution of lending between low- and moderate-income tracts within the assessment area. We used the same sample of loans from the **Lending to Borrowers of Different Income Levels and Businesses of Different Sizes** section of this performance evaluation.

The bank’s percentage of business loans originated and purchased in each geographic income level is compared to the percentage distribution of all businesses located in those same income levels (based on Dun & Bradstreet demographic data). Table 4 outlines the bank’s performance based on 2003 and 2004 loan originations.

Table 4

<b>Geographic Distribution of Loans to Businesses King / Pierce County Assessment Area</b>								
<b>Census Tract Income Level <sup>1</sup></b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
	<b>% of Number of Loans</b>	<b>% of AA Businesses</b>						
2003 - 2004 Sample <sup>1</sup>	0%	<b>3%</b>	30%	<b>22%</b>	50%	<b>47%</b>	20%	<b>28%</b>

*Demographic Data Source: <sup>1</sup> 2004 Dun & Bradstreet*

The bank’s penetration in low-income geographies is below the demographics of the assessment area. The bank’s AA is comprised of King and Pierce Counties, which is a large assessment area for a bank that has only one location. A majority of the low-income tracts are at least ten miles from the bank, making lending to those geographic areas difficult. Lending in moderate-income tracts significantly exceeds the demographics of the area.

For residential real estate lending analysis, the bank’s percentage of consumer real estate loans originated during the evaluation period is compared to the percentage distribution of owner-occupied units located in those geographic income levels. Table 5 outlines the bank’s performance during the years 2000 through 2003.

Table 5

<b>Geographic Distribution Residential Real Estate Loans King / Pierce County Assessment Area</b>								
<b>Census Tract Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
	% of Number of Loans	<b>% of AA Owner Occupied Housing</b>						
2000 - 2002 Sample <sup>1</sup>	0%	<1%	8%	<b>9%</b>	70%	<b>62%</b>	22%	<b>28%</b>
2003 Sample <sup>2</sup>	0%	<1%	20%	<b>13%</b>	70%	<b>56%</b>	10%	<b>30%</b>

*Demographic Data Source: <sup>1</sup> 1990 U.S. Census <sup>2</sup> 2000 U.S. Census*

We did not evaluate the bank's lending in low-income geographies because the percentage of owner-occupied housing in those tracts is less than 1% and analysis would not be meaningful. Lending in moderate-income tracts was consistent with the 2000-2002 loan originations and for 2003 loans, the bank exceeded the demographics of the area.

Overall lending patterns in moderate-income geographies indicate that the bank is meeting the needs of its AA and the geographic distribution exceeds the standard for satisfactory performance.

### **Qualified Community Development Services**

WSB was the first financial institution in the country to have a customer open an electronic transfer account (ETA). The ETA was designed in 1999 to allow federal benefit recipients without bank accounts to take advantage of direct deposit. This low-cost service is targeted to low-income "unbankable" individuals. Many individuals that have this account with the bank are homeless and the account provides a safe place for their funds. WSB was the only bank in the state to offer this account until 2001. The bank has 82 open accounts as of December 31, 2004.

WSB has worked with Youth and Outreach Services, a 501(c)(3) nonprofit that provides community services targeted to homeless youth. During the evaluation period the bank originated two loans for \$140,000 that provided housing to homeless men and women in King County.

### **Responses to Complaints**

WSB 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.