

## PUBLIC DISCLOSURE

July 18, 1996

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Mt. Rainier National Bank  
Charter: 22034

501 Roosevelt  
Enumclaw, Washington 98022

Comptroller of the Currency

Western District  
50 Fremont Street, Suite 3900  
San Francisco, California 94105  
(415) 545-5900

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 Mt. Rainier National Bank prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of July 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 "Outstanding".

Mt. Rainier National Bank (MRNB) demonstrates outstanding performance given the bank's business strategy. We assigned this rating based on the following factors:

- MRNB originates a substantial majority of loans within its assessment area.
- The bank demonstrates excellent penetration of lending to businesses of different sizes, and a good level of loans to borrowers of different incomes.
- MRNB maintains a strong loan-to-deposit ratio compared to similar sized banks.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>MT. RAINIER 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	Not rated. Not a meaningful analysis for this bank's assessment area demographics.		
Response to Complaints	No complaints received since the prior examination.		

## DESCRIPTION OF INSTITUTION:

Mt. Rainier National Bank is the only independently owned community bank located in Enumclaw, Washington. MRNB opened in July 1990 and comprises 99% of Mountain Bank Holding Company's assets. The bank is in sound financial condition, with total assets of \$51 million with net loans representing 63% of total assets as of March 31, 1996. The bank has no factors impeding its ability to help meet the credit needs in its assessment area.

The bank's primary market is southeast King county and the City of Enumclaw, Washington, which is approximately 45 miles south of Seattle. MRNB recently opened a branch in Buckley, Washington in February, 1995. The bank's main office is located in King county, Metropolitan Statistical Area (MSA) #7600 and the branch is in Pierce county, MSA #8200.

MRNB operates three Automated Teller Machines (ATM's) in the community. In response to the closing of the only bank branch in Black Diamond, the bank began operating an ATM to provide minimum banking services in Black Diamond. The ATM is located in a senior citizen center.

The bank's last CRA examination was December 8, 1993, when it received a satisfactory rating for meeting the community's credit needs. Since then, the bank shifted its primary business strategy from consumer lending to commercial lending.

MRNB'S primary business focus is small business lending. The bank also offers a variety of retail products, including mortgage loans and consumer loans. In 1995 the bank originated 290 commercial loans, including commercial real estate, for \$16.1 million (67% of loan volume); 414 consumer loans for \$4.7 million (19.8% of loan volume); 55 one-to four family residential real estate loans for \$2.4 million (9.9% loan volume); and 14 other real estate loans for \$801 thousand (3.3% of loan volume). These originations compare similarly to the bank's portfolio composition as of June 30, 1996.

## DESCRIPTION OF ASSESSMENT AREA:

MRNB's assessment area consists of parts of the King and Pierce county MSA's. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low or moderate income census tracts.

Based on the 1990 Census Data, the assessment area has a population of 63,135 and contains 12 census tracts, with 6 located in the King county MSA and 6 located in the Pierce county MSA. There are no low income census tracts and only one moderate income census tract located in the bank's assessment area. Furthermore, it is important to note that no low or moderate income census tracts exist in the areas surrounding MRNB's assessment area.

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
Moderate Income	1	8.0%	0.12%
Middle Income	9	75.0%	80.93%
Upper Income	2	17.0%	18.95%
Total	12	100.0%	100.00%

The MSA median family income is \$43,103 and \$35,108, respectively, for the King and Pierce county MSA's. The major employer in the area is an insurance company (Mutual of Enumclaw) and a large forest products concern (Weyerhaeuser). The area is predominately a rural community, however growth from the Seattle metropolitan area is beginning to have an impact. The shortage of additional water supplies is impeding economic growth in the city of Enumclaw. The bank does not expect this condition to be corrected in the immediate future.

During our evaluation, we contacted the Mayor of Enumclaw and a City Council member from Black Diamond, Washington. The mayor indicated that the community has a need for financial institutions to offer technical advice related to applying for commercial loans to local small business owners. The council member stated that Black Diamond wanted a local presence from a financial institution. At the time of the interview, the council member did not know that the bank had filed an application to open a branch in Black Diamond. Both contacts said MRNB is the top bank in all categories, from local business knowledge to addressing the credits needs of the community.

The Enumclaw area is also served by four branches of regional financial institutions and one credit union. MRNB is the only bank headquartered in the assessment area, and also the only bank that makes all credit decisions locally. The community contacts believe the local presence and efficient decision making authority of MRNB leads to quicker responses to credit requests.

#### CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

- LOAN TO DEPOSIT RATIO

MRNB has maintained a loan-to-deposit ratio above the high end of the range for similar sized banks. The bank averaged a 76% loan-to-deposit ratio for the past eight quarters ending March 31, 1996, compared with five similar sized banks with average loan-to-deposit ratios ranging from 67% to 75% for the same period. The five banks used in the comparison are also located in rural areas in Washington. While loan growth was strong at 17% during the year, deposit growth was even stronger at 31%. The bank's loan-to-deposit ratio declined

from 82% in December 1994 to 71% in March 1996 due to rapid deposit growth, which resulted from the opening of the Buckley branch in February 1995.

There are no similarly situated banks near the assessment area. MRNB's loan-to-deposit ratio is strong given the bank's size, limited operating history, performance versus peer banks and the growing market in which it operates.

- LENDING IN ASSESSMENT AREA

MRNB exceeds the standards for satisfactory performance, with 84% of its loans made inside the assessment area. The bank originated a total of 773 loans in 1995. Of the total loans, 647 loans originated within the assessment area. We used the bank's management reports to evaluate lending performance.

- LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES

The distribution of commercial loans reflects excellent penetration among businesses of different sizes. Given the bank's small business focus, its commercial lending patterns materially exceed the standards for satisfactory performance. In addition, the bank achieved reasonable loan penetration among individual borrowers of different income levels. This loan distribution is similar to the income characteristics of the assessment area.

### Distribution of Business Loans by Size

MRNB demonstrated excellent loan penetration among small businesses within the assessment area. The following table illustrates that in 1995 the bank originated 193 commercial loans inside the assessment area of which 92% were made to small businesses.

Revenue Characteristics Of Borrower	# Of Business Loans	% Of Business Loans
Revenues <= \$1MM*	178	92%
Revenues > \$1MM	15	8%
Total	193	100%

\* Small businesses for CRA purposes are defined as businesses generating annual revenues of \$1 million or less.

Through conversations with representatives from three of the four regional banks serving Enumclaw, we determined that MRNB substantially meets the small business credit needs within the assessment area. Two banks originate less than 10% of their loan portfolio to small

businesses. The third bank estimated 30% of their loans in the community meet small business credit needs. The following table shows that a substantial majority of the bank's business loans (89%) are \$100 thousand or less.

Original Balance of Business Loans (000's)	# of Business Loans	% of Business Loans
Loans >= \$1000M	0	0
Loans >= \$250M < \$1000M	4	2%
Loans >=\$100M < \$250M	18	9%
Loans <\$100M	171	89%
Total	193	100%

MRNB originated 55 residential real estate loans, with 91% of those loans made within their assessment area for home purchase, home improvement, and refinance purposes. In addition, the bank provides a service to the community by facilitating the packaging and selling of residential real estate loans to other lenders. In 1995 the bank brokered 110 residential real estate loans for \$11.7 million to other lenders.

### Income Distribution of Real Estate Loans

The following table illustrates that the bank made a reasonable percentage of real estate loans to the low and moderate income borrowers. The bank made 8% and 20% of their real estate loans to low income and moderate income borrowers, respectively. Low income borrowers represent 15% of the assessment area population, and moderate income borrowers account for 18% of the assessment area population.

Applicant Income as a % of MSA Median	# of Real Estate Loans	% of Real Estate Loans	% of Population by Income Category*
Low Income	4	8%	15%
Moderate Income	10	20%	18%
Middle Income	10	20%	29%
Upper Income	26	52%	38%
Total	50	100%	100%

\* Based on 1990 U.S. Census data for median family income for the MSA.

- GEOGRAPHIC DISTRIBUTION OF ALL LOANS

We did not perform a geographic distribution of loans since we determined that it would not provide a meaningful analysis. We based our decision on the fact that no low income census tracts, and only one moderate income census tract with 34 households is located in the assessment area. Furthermore, less than one tenth of one percent of the assessment area population reside in the moderate income census tract (see table on page 4). This moderate income census tract provides very few lending opportunities. Of the remaining eleven census tracts, nine are middle income and two are upper income.

The bank originated 13 loans in the moderate income census tract, which consisted of 6 consumer loans, 4 real estate and 3 small business loans. This level of lending reflects excellent penetration within this census tract.

- RECORD OF COMPLAINTS AND COMPLIANCE WITH ANTI-DISCRIMINATION LAWS

MRNB did not receive any complaints related to its CRA performance since our last examination. This assessment criteria is not rated.

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.

- OTHER BANK SERVICES

MRNB offers the following banking hours: Monday through Friday 8:00a.m. to 5:00p.m. The bank offers drive-up banking until 6:00p.m. during the week, and on Saturdays from 9:00a.m to 1:00p.m. MRNB offers 24 hour access to all three ATM's.

In 1994, the bank sponsored a First Time Home Buyer Seminar for individuals considering a home purchase. The bank also developed a unique program aimed at elementary students in the fourth through sixth grades called "School Savings". The program is designed to teach students the fundamentals of banking and the merits of saving money. To date, the students opened approximately 50 to 60 passbook savings accounts.