



SMALL BANK

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

PUBLIC DISCLOSURE

April 25, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Eastside Commercial Bank, National Association
Charter Number 24180**

**3326 160th Avenue S.E., Suite 101
Bellevue, WA 98008**

**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 80% is reasonable.
- ❑ A small percentage of loans and other lending-related activities occur in the bank's assessment area (AA).
- ❑ 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

Eastside Commercial Bank (ECB) is a community focused commercial and retail bank located in the city of Bellevue, Washington. As of December 31, 2004, the bank had assets of \$45 million and net loans totaling \$37 million. The percentage of net loans to total assets is 81%. The bank opened for service April 3, 2002 and is located in an upper income tract.

ECB is a full-service community bank offering a variety of commercial and retail banking products and services such as working capital loans and lines of credit to businesses; equipment loans; non-residential real estate loans; and government guaranteed or subsidized loans for small businesses. Consumer credit products include installment loans, credit cards, personal lines of credit, and home improvement and rehabilitation loans.

Deposit products available to ECB customers include individual and business checking accounts, interest bearing checking accounts, and money market accounts. Alternate delivery systems include online banking, which is available to customers at no charge, VISA check card (to access individual and business accounts), telephone banking, and night drop services.

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

LOAN PORTFOLIO COMPOSITION December 31, 2004	
Loan Type	% of Portfolio
Commercial (including commercial RE)	76%
Residential Real Estate	6%
Consumer	18%
Total:	100%

*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 2003 and December 2004.

This is the first CRA examination for the bank.

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

DESCRIPTION OF KING COUNTY ASSESSMENT AREA

The bank's assessment area (AA) consists of a portion of the Seattle-Bellevue-Everett Metropolitan Statistical Area (MSA) 42660 (King County). There are 51 census tracts within the assessment area; 2% are moderate-income, 35% are middle-income tracts, and 63% upper-income tracts. There are no low-income tracts. The updated 2004 U.S. Department of Housing and Urban Development (HUD) MSA median family income for the assessment area is \$72,600. 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 computer and data processing services, and residential and commercial building construction. Employment has demonstrated strong growth over several recent years and unemployment over this same time remains characteristically below the national average.

Competition from other financial institutions is significant. Numerous commercial banks, savings and loans, credit unions, and mortgage companies vie for local 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 small business development center. The contact indicated a need for:

- ❑ Expanded training opportunities targeting specific needs of small business;
- ❑ Community events for expert speakers and seminars for businesses to learn new skills;

- ❑ Financial resources such as micro loans to see new business ventures; and
- ❑ Several convenient locations around the Eastside for one-stop technical assistance.

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 June 2002 to December 2004 (10 quarters). During this period, the LTD ratio averaged 80%.

We compared the bank's LTD ratio with that of peer banks in the Pacific Northwest that have similar demographics, asset size, and lending products. This peer group consists of six financial institutions, ranging in total asset size from \$24 million to \$106 million. The average quarterly LTD ratio for the peer group was 79%, compared to 80% for ECB. The bank's LTD ratio is reasonable and meets the standard for satisfactory performance.

Lending in Assessment Area

A small percentage 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 40 commercial loans originated from January 2003 through December 2004. We found 43% of loans (by number) and 65% (by dollar volume) were originated within the AA.

The bank originated less than 50% of their loans in the assessment area based on number of loans. This level of penetration is due, in part, to the age of the bank. ECB has been in operation for three years and based many of their current lending relationships on relationships formed while loan officers worked at other banks not located in the immediate AA. Additionally, the bank purchased loans originated by other financial institutions not located in their AA. We noted that the loans outside their AA are within the King County MSA. Since the bank operates with only one location it is not feasible for them to have the entire MSA as their AA.

In order to meet the standard for satisfactory performance in this criterion, the bank needs to originate at least 50%, both as a percentage of the number of loans and the dollar volume of loans, within their assessment area. Consequently, the bank's lending to businesses within the assessment area does not meet the standard for satisfactory performance.

Lending to Businesses of Different Sizes

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

We selected a random sample of 20 commercial loans to evaluate the bank's performance. These loans were originated between January 2003 and December 2004, and were within the bank's assessment area.

We compared the bank's lending to businesses within the assessment area to the demographics of small businesses within the same 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

Income Distribution of Loans to Businesses King County Assessment Area Years 2003-2004		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	65%	7%
% of Bank Loans in AA by #	70%	30%
% of Bank Loans in AA by \$	69%	31%

* Demographic Data Source: 2004 Dun & Bradstreet - 28% of AA businesses did not report revenue data

The table indicates that 70% (by number of loans) and 69% (by dollar volume) of the bank's commercial originations were to borrowers with gross annual revenues of \$1 million or less. This is consistent with the Dun and Bradstreet data, which shows that 65% of reporting businesses had gross annual revenues of \$1 million or less. The bank meets the standard for satisfactory performance.

Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion throughout the assessment area.

We reviewed the pattern for geographic distribution of lending between low- and moderate-income tracts within the assessment area. The bank has no low-income tracts and only one moderate-income tract. Table 3 details the bank's commercial lending activity within the assessment area. We used the same sample of loans from the **Lending to Businesses of Different Sizes** section of this performance evaluation.

Table 3

Geographic Distribution of Loans to Businesses King County Assessment Area								
Census Tract Income Level ¹	Low		Moderate		Middle		Upper	
	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses
2003 – 2004 Sample ¹	0%	0%	10%	1.52%	30%	37.30%	60%	61.18%

Demographic Data Source: ¹ 2004 Dun & Bradstreet

The table indicates lending in moderate-income tracts significantly exceeds the demographics of the assessment area. The bank exceeds the standard for satisfactory performance.

Qualified Investments and CD Services

The past president of ECB was the treasurer of the Bellevue Entrepreneur Center (BEC). BEC focuses on the development of emerging businesses in culturally diverse communities on the Eastside of King County. ECB made a commitment in March 2005 to invest \$50,000 for the lending program. This investment will fund loans to businesses that are not yet bankable but meet BEC requirements. BEC will partner with Community Capital Development, a certified nonprofit community-based lender to service the loans.

The bank provides various free seminars for customers and members of the community. During the evaluation period the bank has offered seven seminars dealing with small business topics such as operating plans, growth strategies, employment and labor laws, information technology.

Responses to Complaints

ECB 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.