



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**October 27, 2011**

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

Sound Community Bank  
Charter Number 717942

2005 Fifth Avenue, 2nd Floor  
Seattle, WA 98121-0000

Office of the Comptroller of the Currency

ADC-SEATTLE Field Office  
First & Stewart Building 101, Stewart Street  
Seattle, WA. 98101

**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.**

Sound Community Bank (Sound Community or Sound) satisfactorily meets the credit needs of its Combined Assessment Areas, including low- and moderate-income geographies and those of low- and moderate-income individuals. The following supports this rating:

- Sound Community Bank's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and the credit needs of the community.
- The bank's lending in the assessment area exceeds the standard for satisfactory performance.
- The bank's distribution of loans to borrower's of different incomes reflects low penetration to low-income borrowers throughout the assessment areas.
- The bank's geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- There have been no written complaints regarding the bank's performance in meeting its community's credit needs.

**SCOPE OF EXAMINATION**

We evaluated CRA performance under the Small Savings Institution Examination Procedures, which are applicable based on the bank's total assets as of December 31, 2009 and 2010. We used full-scope procedures to evaluate CRA-related activities in the Combined Assessment Areas. The procedures apply one test: the Lending Test. The review period for this evaluation is January 1, 2009 through September 30, 2011.

The Lending Test includes an evaluation of the bank's CRA results based on five performance criteria. These performance criteria are: 1) loan-to-deposit ratio; 2) assessment area concentration; 3) borrower profile/distribution of loans by borrower income; 4) geographic distribution of loans; and 5) response to CRA-related complaints. The bank may also provide information regarding any community development loans, investments, or services provided during the review period, at their discretion.

Our evaluation concentrated on the bank's primary product line, residential mortgage loans. Our sample consisted of 807 residential mortgage loans originated in the Combined Assessment Areas during the review period. We also reviewed the evaluation of compliance with consumer laws and regulations performed in the most recent comprehensive examination of Sound Community Bank and did not identify any illegal credit practices that violate law, rule, or regulation.

**DESCRIPTION OF INSTITUTION**

Sound Community is a federally chartered stock savings institution, headquartered in Seattle, Washington. Sound Community MHC, a unitary savings and loan holding company, owns the bank. During the review period Sound Community acquired the Tacoma and Port Angeles branches of 1<sup>st</sup> Security Bank of Washington. The total

deposits in the two branches was an estimated \$40 million. In these transactions the bank purchased 1<sup>st</sup> Security Bank's deposits and deposit-related loans.

Table 1 provides a summary of the balance sheet with items pertinent to the evaluation of CRA performance. The table illustrates that the bank primarily invests in one-to-four family mortgage loans. Sound Community funds its loans with deposit accounts and to a lesser extent, FHLB advances. The concentration of one-to-four family mortgage loans warrants the emphasis on residential mortgage loans in the evaluation of the bank's CRA performance.

<b>Table 1 - Major Components of Total Assets, Liabilities and Capital</b>			
<b>As of 9/30/2011</b>			
<b>Balance Sheet Component</b>	<b>Balance Sheet \$ Amount</b>	<b>% of Total Assets</b>	<b>\$ Change in Period</b>
<b>Loans</b>			
1-4 Family Permanent Mortgages	147,044	43.3%	-11,270
Multi-Family Mortgage Loans	39,576	11.7%	+33,094
Nonresidential Perm. Mortgages and Land	69,343	20.4%	+18,123
Residential Construction Loans	7,039	2.1%	+2,851
Commercial Loans	13,507	4.0%	+1,255
Consumer Loans	27,096	8.0%	-7,668
<b>Investments</b>			
Cash, Dep. And Investment Securities	13,041	3.8%	+6,620
Other Interest Earning Deposits	0	0%	0
<b>Liabilities</b>			
Deposits and Escrows	301,283	88.8%	+49,317
Advances from FHLBank	8,666	2.6%	-16,334
<b>Total Assets</b>	<b>\$339,448</b>	-	<b>+36,013</b>
<b>Total Liabilities</b>	<b>\$311,678</b>	-	<b>+32,481</b>
<b>Net Worth</b>	<b>\$27,770</b>	-	<b>+3,532</b>

Source: UTPR Report Quarter Ended 9/2011

Sound Community has five full service branches to serve the public. The main office is located in Seattle, Washington. The four remaining branches are located in Mountlake Terrace, Sequim, Port Angeles, and Tacoma in the state of Washington.

The bank closed two branches during the review period. Prior to its conversion to the thrift charter, Sound Community was a credit union. The membership base consisted of employees of Associated Grocers which was acquired in 2007 by another cooperative. Associated Grocers headquarters was subsequently moved out of state and due to the decreased volume of customers the bank closed the original Seattle branch. Sound Community also closed their Lakewood branch as a result of the acquisition of 1st Security Bank's Tacoma branch location. Neither branch closure adversely impacted low- or moderate-income individuals.

During the review period, Sound Community conducted operations in a recessionary economy. The bank also made an agreement with its primary regulator to achieve and maintains specified capital levels. These factors may have somewhat restricted Sound's lending capacity as the bank has implemented more stringent underwriting criteria to control growth and maintain the capital levels noted above. However, based on Sound's financial condition there were no other factors or legal impediments identified that would

prohibit the bank from meeting the credit needs of the community. For additional information please refer to Sound Community Bank’s Public File.

**DESCRIPTION OF ASSESSMENT AREA(S)**

Our review of the bank’s assessment areas show they comply with the technical requirements of the CRA regulations. They include all geographies in which the bank has retail branch offices and deposit taking ATMs. In addition, the bank’s assessment areas do not reflect illegal discrimination or arbitrarily exclude low- or moderate-income areas. Sound Community Bank designated the following as its assessment areas:

- Seattle-Bellevue-Everett, Washington Metropolitan Division
- Tacoma, Washington Metropolitan Division
- Washington Non-Metropolitan Area

**Seattle-Bellevue-Everett Assessment Area**

This assessment area is comprised of King and Snohomish Counties. These two contiguous counties are located in the northeastern part of the state of Washington and have a combined total area of more than 4,200 square miles. The bank’s lending performance in this assessment area was weighted more heavily as a majority of the number and dollar amount of loans were originated in the Seattle-Bellevue-Everett area.

Table 2 provides an overview of assessment area demographic data, compiled from the 2000 US Census, that provide the context of the review.

According to the US Census Bureau the population in the assessment area increased nearly 13.0 percent since the 2000 Census and is an estimated 2,644,584 persons. The assessment area houses approximately 39.0 percent of the population of the state of Washington. Boeing and Microsoft are the area’s largest employers. Unemployment in this assessment area has declined slightly but remains high at 8.0 percent.

<b>Table 2 – Demographic Overview</b>	
<b>Demographic Data</b>	<b>2000 Census</b>
Population	2,343,058
Total Families	582,505
Total Housing Units	978,442
1-4 Family Units	664,906
Occupied Units	935,768
% Owner-Occupied Units	59%
% Rental Units	39%
% Vacant Housing Units	4%
Median Housing Value	\$228,785

Competition in the assessment area is high. There are a total of 66 financial service providers with large, nationally recognized institutions such as Bank of America and Wells Fargo leading the market share. With over \$136 million in deposits, Sound Community Bank ranked 36<sup>th</sup>, with a market share of less than one percent.

<b>Table 3 - Assessment Area Family Income Distribution</b> Based on 2011 Median Family Income (MFI) and 2000 Census Data				
Income Category	Assessment Area			
	% MFI	Maximum Income	# of Families	% of Families
Low	<50%	\$42,799	107,739	18.5%
Moderate	50% - <80%	\$68,479	108,919	18.7%
Middle	80% - <120%	\$102,719	142,965	24.5%
Upper	≥120%	NA	222,882	38.3%
Total			582,505	100.0%

Table 3 defines income categories based on the percentage of median family income, and provides the distribution of families based on those income categories. The table reflects a large proportion of upper-income families, suggesting a potential demand for

housing. During the review period, the HUD-updated weighted average median income for the assessment area rose from \$84,300 in 2009 to \$85,600 in 2011.

Table 4 details the distribution of assessment area families by census tract income levels. The table indicates the majority of the population is located in the middle-income census tracts which would typically suggest reasonable opportunities for lending in those areas.

<b>Table 4 - Assessment Area Demographic Information</b>			
Income Category	# of Tracts	2000 US Census Data Distributions	
		Families	
		#	%
Low	11	6,907	1.2%
Moderate	105	115,950	19.9%
Middle	268	310,178	53.2%
Upper	122	149,470	25.7%
NA	0	0	0%
<b>Total</b>	<b>506</b>	<b>582,505</b>	<b>100.0%</b>

### Tacoma Assessment Area

This assessment area consists of only Pierce County. This county is located on the Puget Sound and is the second most populous county in the state of Washington. The county has a total area of 1,669 square miles.

Table 5 provides an overview of assessment area demographic data, compiled from the 2000 US Census, that provide the context of the review.

According to the US Census Bureau the population in the assessment area increased 13.5 percent since the 2000 Census and is an estimated 795,225 persons. The assessment area houses nearly 12.0 percent of the population of the state of Washington. The military has a strong presence in this assessment area and employs the bulk of the population. The largest public employer is the local school district. Unemployment in this assessment area has declined nearly two

<b>Table 5 – Demographic Overview</b>	
Demographic Data	2000 Census
Population	700,820
Total Families	181,466
Total Housing Units	277,060
1-4 Family Units	205,658
Occupied Units	260,800
% Owner-Occupied Units	60%
% Rental Units	37%
% Vacant Housing Units	6%
Median Housing Value	\$144,289

percent since 2010 but is still high at 8.8 percent.

Competition in the assessment area is high. There are a total of 31 financial service providers with large, nationally recognized institutions such as Bank of America and Key Bank leading the market share. With over \$33 million in deposits, Sound Community Bank ranked 24<sup>th</sup>, with a market share of less than one percent.

<b>Table 6 - Assessment Area Family Income Distribution</b> Based on 2011 Median Family Income (MFI) and 2000 Census Data				
Income Category	Assessment Area			
	% MFI	Maximum Income	# of Families	% of Families
Low	<50%	\$34,799	33,866	18.7%
Moderate	50% - <80%	\$55,679	34,270	18.9%
Middle	80% - <120%	\$83,519	42,153	23.2%
Upper	≥120%	NA	71,177	39.2%
Total			181,466	100.0%

Table 6 defines income categories based on the percentage of median family income, and provides the distribution of families based on those income categories. The table reflects a large proportion of upper-income families, suggesting a potential demand for

housing. During the review period, the HUD-updated weighted average median income for the assessment area rose from \$68,100 in 2009 to \$69,600 in 2011.

Table 7 details the distribution of assessment area families by census tract income levels. The table indicates the majority of the population is located in the middle-income census tracts which would typically suggest reasonable opportunities for lending in those areas.

<b>Table 7 - Assessment Area Demographic Information</b>			
Income Category	# of Tracts	2000 US Census Data Distributions	
		Families	
		#	%
Low	5	4,256	2.3%
Moderate	30	29,134	16.1%
Middle	90	107,816	59.4%
Upper	32	40,260	22.2%
NA	1	0	0%
<b>Total</b>	<b>158</b>	<b>181,466</b>	<b>100.0%</b>

### Washington Non-Metropolitan Assessment Area

This assessment consists of Clallam County, which is not a part of any larger Metropolitan Statistical Area. This county is located in the most northwestern portion of the state of Washington and has a total area of 1,738 square miles.

Table 8 provides an overview of assessment area demographic data, compiled from the 2000 US Census, that provide the context of the review.

According to the US Census Bureau the population in the assessment area increased 10.7 percent since the 2000 Census and is an estimated 71,404 persons. The assessment area houses approximately 1.0 percent of the population of the state of Washington. Olympic Medical Center and Peninsula College are the area’s largest employers. Unemployment in this assessment area remains high. The average rate of unemployment decreased slightly from 10.4 percent in 2010 to 10.1 percent in 2011.

Demographic Data	2000 Census
Population	64,525
Total Families	18,168
Total Housing Units	30,683
1-4 Family Units	22,873
Occupied Units	27,164
% Owner-Occupied Units	64%
% Rental Units	27%
% Vacant Housing Units	11%
Median Housing Value	\$124,710

Competition in the assessment area is moderate. There are a total of 12 financial service providers with both local and nationally recognized institutions leading the market share. With over \$152 million in deposits, Sound Community Bank ranked 3<sup>rd</sup>, with a market share of more than 10.0 percent.

Income Category	Assessment Area			
	% MFI	Maximum Income	# of Families	% of Families
Low	<50%	\$27,699	3,213	17.7%
Moderate	50% - <80%	\$44,319	3,169	17.4%
Middle	80% - <120%	\$66,479	4,410	24.3%
Upper	≥120%	NA	7,376	40.6%
Total			18,168	100.0%

Table 9 defines income categories based on the percentage of median family income, and provides the distribution of families based on those income categories. The table reflects a large proportion of upper-income families, suggesting a potential demand for

housing. During the review period, the HUD-updated weighted average median income for the assessment area rose from \$54,500 in 2009 to \$55,400 in 2011.

Table 10 details the distribution of assessment area families by census tract income levels. The table indicates the majority of the population is located in the middle-income census tracts which would typically suggest reasonable opportunities for lending in those areas.

Income Category	# of Tracts	2000 US Census Data Distributions	
		Families	
		#	%
Low	0	0	0%
Moderate	2	1,075	5.9%
Middle	18	15,919	87.6%
Upper	1	1,174	6.5%
NA	0	0	0%
<b>Total</b>	<b>21</b>	<b>18,168</b>	<b>100.0%</b>

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

Sound Community’s loan-to-deposit (LTD) ratio is more than reasonable given the bank’s size, financial condition, and the credit needs of the community. We calculated the average LTD ratios for the last 11 quarters (March 2009 to September 2011). The bank’s average LTD ratio was 104.0 percent. We compared Sound Community Bank’s results to thrifts of its same asset size and found an average quarterly LTD ratio of 90.2 percent.

### Lending in Assessment Area

The bank’s lending in the assessment area exceeds the standard for satisfactory performance. Table 11 shows that a significant majority of mortgage loan originations are made within the bank’s designated assessment area.

<b>Table 11 - SOUND COMMUNITY BANK LENDING IN ASSESSMENT AREA</b>						
<b>Loan Type</b>	<b>Number of Loans</b>			<b>Dollar Amount (\$000)</b>		
	<b>Assessment Area Lending</b>	<b>Total Lending</b>	<b>Ratio of AA to Total (%)</b>	<b>Assessment Area Lending</b>	<b>Total Lending</b>	<b>Ratio of AA to Total (%)</b>
<b>Mortgage Loans</b>	807	903	89.4%	155,034	170,968	90.7%

Source: Sample of 903 mortgage loans originated during the review period.

### Lending to Borrowers of Different Incomes

The bank’s record of lending to borrowers of different income levels does not meet the standards for satisfactory performance. Table 12 reflects low penetration to low-income borrowers in each assessment area compared to the demographics of each assessment area.

<b>Table 12 - Distribution of Residential Mortgage Loans By Borrower Income Level in the Combined Assessment Areas</b>			
<b>Borrower Income Category</b>	<b># of Loans</b>	<b>% of Loans</b>	<b>Family Distribution</b>
<b>Seattle AA</b>			
Low	46	12.3%	18.5%
Moderate	80	21.4%	18.7%
Middle	94	25.1%	24.5%
Upper	150	40.1%	38.3%
Income Not Avail.	4	1.1%	-
<b>Tacoma AA</b>			
Low	6	9.7%	18.7%
Moderate	11	17.7%	18.9%
Middle	16	25.8%	23.2%



Upper	29	46.8%	39.2%
Income Not Avail.	-	-	-
<b>Clallam AA</b>			
Low	22	6.0%	17.7%
Moderate	62	16.7%	17.4%
Middle	89	24.0%	24.3%
Upper	193	52.0%	40.6%
Income Not Avail.	5	1.3%	-
<b>Total</b>	<b>807</b>	<b>-</b>	<b>-</b>

\*Sample of 807 loans originated during the review period.

### Geographic Distribution of Loans

Table 13 shows the bank’s penetration among low- and moderate-income census tracts is reasonable and meets the standards for satisfactory performance.

<b>Table – 13 Distribution of Residential Mortgage Loans By Census Tract Income Level in the Combined Assessment Areas</b>			
<b>Borrower Income Category</b>	<b># of Loans</b>	<b>% of Loans</b>	<b>Tract Demographics (% of Families in Each Tract)</b>
<b>Seattle AA</b>			
Low	3	.8%	1.2%
Moderate	81	21.7%	19.9%
Middle	208	55.6%	53.2%
Upper	82	21.9%	25.7%
Income Not Avail.	-	-	-
<b>Tacoma AA</b>			
Low	0	0%	2.4%
Moderate	6	9.7%	16.0%
Middle	37	59.7%	59.4%
Upper	19	30.6%	22.2%
Income Not Avail.	-	-	-
<b>Clallam AA</b>			
Low*	0	0%	0%
Moderate	22	5.9%	5.9%
Middle	308	83.0%	87.6%
Upper	41	11.1%	6.5%
<b>Total</b>	<b>807</b>	<b>-</b>	<b>-</b>

### Responses to Complaints

There have been no written complaints regarding Sound Community Bank’s CRA performance since the previous CRA Examination, dated July 25, 2005.

### Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.