

PUBLIC DISCLOSURE

February 7, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Yakima Federal Savings & Loan Association
118 E Yakima Ave
Yakima, WA 98901-2626
Docket #: 00921**

**Office of Thrift Supervision
Western Region
225 East John Carpenter Freeway, Suite 500
Irving, TX 75062-2326**

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.



Office of Thrift Supervision

Department of the Treasury

Western Region

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May 18, 2011

Board of Directors
Yakima Federal Savings & Loan Association
118 E Yakima Ave
Yakima, WA 98901-2626

OTS No. 00921

Members of the Board:

Enclosed is your institution's written Community Reinvestment Act (CRA) Performance Evaluation prepared by the Office of Thrift Supervision as of February 7, 2011.

In accordance with 12 C.F.R. 563e, this written CRA Performance Evaluation must be made available to the public within 30 business days of its receipt by your institution. The evaluation must be placed in your CRA public file located at your home office and each branch within this 30 business day time frame. The evaluation may not be altered or abridged in any manner. At your discretion, previous written CRA Performance Evaluation(s) may be retained with the most recent evaluation in your CRA public file.

Your institution is invited to prepare a response to the evaluation. The response may be placed in each CRA public file along with the evaluation. In the event your institution elects to prepare such a response, please forward a copy of it to this office.

We strongly encourage the Board of Directors, senior management, and other appropriate personnel to review this document and to take an active interest and role in the CRA activities of your institution. If you should have any questions concerning this report, please do not hesitate to call me at (972) 277-9559.

Sincerely,

Bill M. Williams
Assistant Director, Compliance

Enclosure

Table of Contents

GENERAL INFORMATION 1

INSTITUTION..... 2

 OVERALL RATING 2

 LENDING, INVESTMENT, SERVICE TEST TABLE 4

 DESCRIPTION OF INSTITUTION 4

 SCOPE OF EXAMINATION 5

 CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS..... 6

 LENDING TEST 6

 INVESTMENT TEST 14

 SERVICE TEST 15

 FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW 17

KENNEWICK-RICHLAND-PASCO, WA MSA 18

 SUMMARY OF INSTITUTION’S OPERATIONS IN KENNEWICK-RICHLAND-PASCO, WA METROPOLITAN STATISTICAL AREA (MSA)..... 18

 DESCRIPTION OF KENNEWICK-RICHLAND-PASCO, WASHINGTON MSA..... 18

 CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN KENNEWICK-RICHLAND-PASCO, WASHINGTON MSA 20

 LENDING TEST 20

 INVESTMENT TEST 23

 SERVICE TEST 23

YAKIMA, WASHINGTON MSA 25

 SUMMARY OF INSTITUTION’S OPERATIONS IN YAKIMA, WASHINGTON, MSA 25

 DESCRIPTION OF YAKIMA, WASHINGTON MSA 25

 DISCUSSION OF PERFORMANCE IN YAKIMA, WASHINGTON MSA 27

 LENDING TEST 27

 INVESTMENT TEST 30

 SERVICE TEST 30

KITTITAS COUNTY, WASHINGTON..... 32

 SUMMARY OF INSTITUTION’S OPERATION IN KITTITAS COUNTY, WASHINGTON 32

 DESCRIPTION OF KITTITAS COUNTY, WASHINGTON..... 32

 DISCUSSION OF PERFORMANCE IN KITTITAS COUNTY, WASHINGTON 34

 LENDING TEST 34

 INVESTMENT TEST 36

 SERVICE TEST 37

APPENDIX 39

 A. SCOPE OF EXAMINATION 39

 B. SUMMARY OF STATE AND MULTISTATE METROPOLITAN AREA RATINGS..... 40

CRA RATING DEFINITIONS 41

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions 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 CRA performance of Yakima Federal Savings and Loan Association (Yakima Federal). The Office of Thrift Supervision (OTS) prepared the evaluation as of February 7, 2011. OTS evaluates performance in assessment area(s) delineated by the institution rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. OTS rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 563e.

Institution

Overall Rating

INSTITUTION'S CRA RATING: Outstanding

The assessment of Yakima Federal's CRA performance is based on the application of the large institution performance criteria. This process evaluates an institution's CRA performance, within its defined assessment areas, under the Lending, Investment, and Service Tests. The review period for this evaluation was January 1, 2008 through December 31, 2010.

Yakima Federal's "Outstanding" rating is based on its good volume of residential mortgage lending within its assessment areas, a substantial majority of which was concentrated within the combined assessment areas. Both the geographic distribution of loans and lending to borrowers of different income levels reflect good penetration. The institution's lending activity demonstrates a good responsiveness to the credit needs of low-income individuals and geographies within the assessment areas. The institution used available resources to make an excellent level of community development investments and used innovative and flexible lending practices extensively to make a relatively high level of community development loans. Yakima Federal used innovative investment vehicles in support of community development initiatives, and is a leader in providing community development services throughout the assessment areas.

Yakima Federal's Lending Test performance is rated "High Satisfactory," as the institution's lending volume reflects good responsiveness to the credit needs of the combined assessment areas. A substantial majority of loans were originated in the combined assessment areas and the geographic distribution of loans reflects good penetration throughout the assessment areas. The institution's lending activity reflects good penetration among individuals of different income levels and good responsiveness to the credit needs of low-income individuals and areas. Yakima Federal made a relatively high level of community development loans and used innovative or flexible lending practices extensively.

The institution's Investment Test performance is rated "Outstanding," as Yakima Federal made a significant level of qualified community development investments which are not routinely provided by private investors. The institution displayed an excellent level of responsiveness to the credit needs of the community and used complex or innovative investments in support of community development initiatives.

Yakima Federal's Service Test performance is rated "Outstanding," as the institution's delivery systems are readily accessible to all portions of the combined assessment areas. The institution's services are tailored to the convenience and needs of the combined assessment areas. Additionally,

Institution (continued)

Yakima Federal has been a leader in providing community development services that benefit the combined assessment areas.

Yakima Federal's CRA performance was last evaluated in November 2006, at which time the institution was rated "Outstanding."

In June 2010, we conducted an examination of Yakima Federal. At that time, we reviewed the evaluation of compliance with consumer laws and regulations and did not identify any illegal credit practices that violate law, rule, or regulation.

Institution

Lending, Investment, Service Test Table

The following table indicates the performance level of Yakima Federal with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	Yakima FS& LA 02/07/2011		
	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding		X	X
High Satisfactory	X		
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

Description of Institution

Yakima Federal is a federally chartered mutual institution located in Yakima, Washington. A summary of the balance sheet with items pertinent to the evaluation of CRA performance is detailed in table T1. The table illustrates that the institution primarily invests in one-to-four family mortgage loans. The institution also originates commercial loans and consumer loans, but these loans represent a small percentage of the total portfolio. Yakima Federal funds its loans with deposit accounts and to a lesser extent, Federal Home Loan Bank (FHLB) advances. The concentration of one-to-four family mortgage loans warrants the emphasis on residential mortgage loans in the evaluation of the institution’s CRA performance.

Balance Sheet Component	Balance Sheet \$ Amount	% of Total Assets
Loans		
1-4 Family Permanent Mortgages	657,322	38.9
Mortgage Back Securities	764,937	45.4
Commercial Loans	368	0.1
Consumer Loans	1,143	0.1
Investments		
Cash, Dep. And Investment Securities	135,698	8.0
Liabilities		
Deposits and Escrows	1,345,401	79.8
Advances from Federal Home Loan Bank	10,508	0.6
Total Assets	\$1,685,819	-
Total Liabilities	1,379,945	-
Total Capital	305,874	-

Institution (continued)

Yakima Federal has ten full service branches to serve the public. The main office and two other branches are located in the city of Yakima, Washington. The remaining branches are located in the cities of Kennewick, Pasco, Prosser, Ellensburg, Sunnyside, and Richland, all in the state of Washington. Each branch offers the same services and the hours of operation do not vary among the different locations. Customers may also use the institution's free online banking and bill pay service to conduct transactions 24 hours a day, seven days a week. The institution did not open or close any branches during the review period.

The institution primarily originates fixed and variable-rate mortgage loans for the purchase, improvement, or refinance of owner occupied one-to-four family dwellings. Yakima Federal offers a variety of banking products including: consumer loans, first mortgages, home equity loans, and commercial loans. The institution also offers money market deposit accounts, certificates of deposit, and individual retirement accounts. In addition to traditional banking products, the institution offers Guaranteed Rural Housing Loans. Through this program, more families can qualify for a mortgage with little or no down payment.

Economic or Legal Constraints

During the review period, Yakima Federal conducted operations in a recessionary economy. Furthermore, a portion of the institution's assessment area is designated as distressed. Distressed areas are those in need of revitalization or stabilization and are generally defined as having an unemployment rate of at least 1.5 times the national average or a poverty rate of at least 20 percent, or a median family income at or below 80 percent of the area median family income. However, based on its financial condition, size and location, prior performance, and legal impediments, there were no other factors identified that adversely affected the institution's ability to meet the credit needs of the community.

Scope of Examination

The OTS evaluated CRA performance under the Large Retail Institution Examination Procedures, which are applicable based on the institution's total assets as of December 31, 2009 and 2010. The procedures apply three tests: the Lending, Service, and Investment Tests. The review period for this evaluation is January 1, 2008 through December 31, 2010. The previous CRA evaluation was November 6, 2006, and was conducted using the Large Retail Institution Examination Procedures. Yakima Federal was rated "Outstanding."

The Lending Test includes an evaluation of the institution's CRA results based on five performance criteria. These performance criteria are: 1) assessment area concentration; 2) geographic distribution of loans; 3) borrower profile/distribution of loans by borrower income; 4) community development

Institution (continued)

lending activities; and 5) innovative or flexible lending practices. The Service Test is an evaluation of the institution's performance based on the following performance criteria: 1) accessibility of delivery systems; 2) record of opening and closing branches; 3) availability of alternative delivery systems for retail services; 4) range of services provided among geographies. The Investment Test is an evaluation of the institution's performance based on the following performance criteria: 1) dollar amount of qualified investments; 2) innovativeness and complexity of investments; 3) responsiveness of investments to community needs; 4) investments must benefit the assessment area or a broader area that includes the assessment area. We evaluated residential mortgage loans under the Lending Test. We reviewed the evaluation of compliance with consumer laws and regulations performed in the most recent comprehensive examination of Yakima Federal and did not identify any illegal credit practices that violate law, rule, or regulation.

Conclusions With Respect To Performance Tests

LENDING TEST

In order to assess the institution's performance under the requirements of the Lending Test, an analysis was performed of the volume, geographic distribution, and borrower income distribution of loans granted during the review period in the Combined Assessment Areas. We reviewed lending to determine the use of innovative and flexible credit products, particularly in meeting the credit needs of economically disadvantaged geographies and persons. The volume and complexity of the institution's community development lending were reviewed as an additional component of this evaluation.

CONCLUSION

Yakima Federal's "High Satisfactory" rating under the Lending Test is based on the good level of lending volume relative to its status as a portfolio lender. The institution originated a substantial majority of loans in the Combined Assessment Areas. Lending within different geographies and the borrower distribution were reasonable. Yakima Federal showed a good level of responsiveness to the credit needs of low- and moderate-income individuals in the Combined Assessment Areas and displayed a high level of community development lending. The institution also used innovative and flexible lending products extensively. The following sections contain the data supporting these conclusions.

Institution (continued)

LENDING ACTIVITY

- During the review period, Yakima Federal originated 2,668 HMDA-reportable mortgage loans, totaling \$471.6 million.
- A substantial majority of total mortgage lending (2,422 loans totaling \$386.1 million) was originated in the Combined Assessment Areas.
- In 2009 and within the institution’s Combined Assessment Areas, Yakima Federal held a 3.0 percent market share in the number of mortgage loans originated and ranked an impressive 8th out of 358 HMDA reporters. Competitors ranked above the institution are large, nationally recognized mortgage lenders and include: Wells Fargo Bank, Bank of America, and JPMorgan Chase Bank.

The following table summarizes the distribution of the institution’s branch offices and its market share for residential loan originations in 2009 (by count) for the institution and for each assessment area. Yakima Federal, a portfolio lender, maintained a very high ranking in its markets with many competing lenders. As stated, the only lenders with larger market shares were significantly larger multi-state institutions that also maintained local offices or very large mortgage banking operations.

Assessment Area	Number of Branches	Mortgage Market Share	
		Share %	Ranking
Combined Assessment Area	10	3.0	8 th of 358
Yakima Assessment Area	4	4.2	4 th of 253
Kennewick-Richland-Pasco Assessment Area	5	2.1	15 th of 276
Kittitas Assessment Area	1	3.6	9 th of 192

The following table compares the institution’s lending volumes in 2008, 2009, and 2010 to the institution’s same asset size peer group in the OTS. Results are based on information contained in the quarterly Thrift Financial Reports filed by all institutions in the peer group for 2009 and presented as a percentage of total assets.

Loan Origination Activity ** As a Percent of Total Assets									
Loan Type	2008			2009			2010		
	Yakima Fed	Peer*	Pct Ranking	Yakima Fed	Peer*	Pct Ranking	Yakima Fed	Peer*	Pct Ranking
1-4 Construction	0.9	1.3	42	0.7	0.8	46	0.5	0.5	52
1-4 Permanent Mortgage	41.2	55.6	17	37.2	53.4	16	36.6	51.4	19
5+ Permanent Mortgage	4.7	1.8	80	4.5	1.7	79	7.7	1.5	90
Land Loans	4.2	1.4	80	4.1	0.9	88	4.0	0.8	90
Total New Mortgage Originations	40.5	15.0	97	45.3	17.7	88	19.6	3.4	92
Refinancing Loans	16.2	3.9	95	31.8	7.3	93	16.2	1.6	95
Commercial (Non-Mort)	4.9	0.0	82	5.4	0.0	86	5.5	0.0	88
Consumer	1.4	0.6	72	1.1	0.4	74	0.8	0.3	71

Institution (continued)

- * OTS peer group median for all OTS-regulated thrift institutions with between \$300 million and \$1 billion in assets.
- ** This information is compiled pursuant to OTS reporting instructions, and therefore, does not exactly correspond to information on reportable lending used in the balance of this evaluation. It is provided to give an overall profile of the association’s total credit activity during the review period.

ASSESSMENT AREA CONCENTRATION

A review of loans originated by Yakima Federal shows the institution originated a significant majority of loans within the combined assessment areas and exceeds the standards for satisfactory performance. The following table illustrates the ratio of the institution’s residential mortgage lending within its combined assessment areas to total mortgage lending.

Combined Assessment Area Concentration						
<i>Lending Reported between 1/1/08 –12/31/10</i>						
Review Period	Number of Loans			Dollar Amount (\$000)		
	Assessment Area Lending	Total Lending	Ratio of AA to Total	Assessment Area Lending	Total Lending	Ratio of AA to Total
Residential Mortgage Loans	2,422	2,668	90.8	\$386,087	\$471,580	81.9

GEOGRAPHIC DISTRIBUTION OF LOANS

Conclusion

Yakima Federal’s record of lending in low- and moderate-income geographies was reasonable and meets the standards for satisfactory performance. The institution originated loans in every census tract and loan originations in low- and moderate-income census tracts totaled more than \$25.3 million. The table below illustrates Yakima Federal’s loan originations compared to other HMDA reporting institutions.

Geographic Distribution of HMDA-Reportable Loans By Census Tract Income Level in the Combined Assessment Area				
Census Tract Income Category	# of Loans	% of Loans	2009 HMDA Aggregate	Family Distribution
Low	15	<1.0%	1.1%	3.8%
Moderate	209	8.6%	10.4%	20.8%
Middle	1,029	42.5%	46.9%	46.9%
Upper	1,169	48.3%	41.6%	28.5%
Total	2,422	100.0%	100.0%	100.0%

NA = Not Available

The following table compares the institution’s total residential lending market share and ranking in 2009 for each assessment area to its market share and ranking for loan originations in low- and moderate-income census tracts. Both the market share and rankings are by unit count, not dollars.

Institution (continued)

Total vs. Low- and Moderate-Income Census Tract Market Share Comparison Combined Assessment Area & Component Areas — 2009				
Assessment Area	Mortgage Market Share And Position		Market Share and Position for Low- and Moderate-Income Census Tracts	
	Share %	Ranking	Share %	Ranking
Combined Assessment Areas	3.0	8 th of 358	4.8	4 th of 127
Yakima Assessment Area	4.2	4 th of 253	8.0	3 rd of 80
Kennewick-Pasco-Richland Assessment Area	2.1	15 th of 276	1.8	11 th of 86
Kittitas Assessment Area	3.6	9 th of 192	7.4	3 rd of 51

LOAN DISTRIBUTION BY BORROWER INCOME CHARACTERISTICS

A review of Yakima Federal’s loan originations shows that lending to low- and moderate-income borrowers was slightly lower than that of other HMDA reporting institutions; however, the institution’s performance is considered reasonable when considering its business model and economic factors in the assessment area. The institution’s performance meets the standards for satisfactory performance. The table below illustrates Yakima Federal’s performance compared to other HMDA reporting institutions.

Distribution of Residential Mortgage Loans By Borrower Income Level in the Combined Assessment Area				
Borrower Income Category	# of Loans	% of Loans	2009 HMDA Aggregate	Family Distribution
Low	63	2.6%	5.6%	20.2%
Moderate	277	11.5%	15.5%	18.4%
Middle	424	17.5%	22.5%	21.1%
Upper	1,485	61.3%	40.6%	40.3%
Income Not Avail.	173	7.1%	15.8%	-
Total	2,422	100.0%	100.0%	100.0%

NA = Not Available

During the review period, Yakima Federal originated 340 mortgage loans, totaling \$33.3 million, to low- and moderate-income borrowers within its Combined Assessment Areas. In 2009, the institution’s 184 loan originations, totaling \$19.0 million, ranked Yakima Federal 11th out of 207 HMDA reporters in originating mortgage loans to low- and moderate-income borrowers, with a market share of 2.2 percent by count. This was slightly below the overall market share of 3.0 percent and resulted in a slightly lower market ranking than the overall 8th market share ranking.

The following table compares the institution’s total residential lending market share and ranking in 2009 for each assessment area to its market share and ranking for loan originations to low- and moderate-income borrowers. Both the market share and rankings are by unit count, not dollars.

Institution (continued)

Total vs. Low- and Moderate-Income Borrower Market Share Comparison Combined Assessment Areas & The Component Areas — 2009				
Assessment Area	Mortgage Market Share And Position		Market Share and Position for Low- and Moderate-Income Borrowers	
	Share %	Ranking	Share %	Ranking
Combined Assessment Areas	3.0	8 th of 358	3.9	4 th of 153
Yakima Assessment Area	4.2	4 th of 253	5.6	7 th of 96
Kennewick-Pasco-Richland Assessment Area	2.1	15 th of 276	2.8	11 th of 121
Kittitas Assessment Area	3.6	9 th of 192	6.7	5 th of 50

RESPONSIVENESS TO CREDIT NEEDS

- During the review period, Yakima Federal originated 63 loans, totaling \$4.7 million, to low-income borrowers within the Combined Assessment Areas. This represented 2.6 percent by count of all loans originated with income data collected. This performance was slightly lower than the 2009 HMDA aggregate results of 5.6 percent by count.
- In 2009, the institution ranked 10th out of 83 HMDA reporters in lending to low-income borrowers, with a 2.5 percent market share by count.
- During the review period, the institution originated 15 loans, totaling \$1.3 million, in low-income tracts within the Combined Assessment Areas. This represented 0.6 percent by count of all loans originated, which is slightly lower than the 1.1 percent of mortgage loans originated in low-income tracts by the 2009 HMDA aggregate.
- In 2009, Yakima Federal ranked 15th out of 47 HMDA reporters in originating loans in low-income areas, with a market share of 2.1 percent by count (4 loans for \$754,000).

The following table exhibits the institution’s record of serving the residential mortgage needs of low-income borrowers and geographies during the review period compared to the 2009 HMDA aggregate for each assessment area. The results also show the 2009 rank and market share for lending to low-income borrowers and in low-income census tracts for Yakima Federal compared to the 2009 HMDA aggregate.

Institution (continued)

Lending to Low-Income Borrowers and in Low-Income Geographies Combined and Component Assessment Areas								
Assessment Area	Low-Income Borrowers				Low-Income Census Tracts			
	Lending Results*		2009 Market Share		Lending Results		2009 Market Share	
	Yakima Federal %	2009 HMDA %	Rank	%	Yakima Federal %	2009 HMDA %	Rank	%
Combined Areas	2.6	5.6	10 th of 83	2.5	0.6	1.2	15 th of 47	2.1
Yakima	1.7	4.4	10 th of 50	4.1	0.4	0.6	16 th of 17	2.8
Kennewick-Pasco-Richland	4.3	7.1	11 th of 68	2.3	1.1	1.7	15 th of 39	1.9
Kittitas	0.8	1.5	17 th of 17	2.9	NA	NA	NA	NA

(NA) indicates not applicable because there are no low income tracts or areas are Kittitas County.

*The low-income borrower lending results are based on loans with income data collected. Also, Lending Results for the institution are for all three years in the review period.

COMMUNITY DEVELOPMENT LENDING

During the review period, the institution’s community development lending totaled \$4.2 million.

In 2008, Yakima Federal funded a loan for \$465,908 to finance the construction of a small restaurant and retail establishment in Sunnyside, Washington, which is in a low-income census tract. Both the construction and final retail establishments created new jobs for the community.

In 2008, Yakima Federal funded a loan of \$199,500 for the refinance of a six unit apartment complex in the middle-income census tract of Sunnyside, Washington. The average rent was \$463 per unit. The Fair Market Rent in 2008 for a one bedroom in Yakima County was \$541 with efficiency rent falling at \$461. As such, they are considered affordable to low-income individuals.

In 2009, Yakima Federal funded a \$684,750 loan for the purchase of a 26 unit apartment complex located in a moderate-income census tract in Yakima, Washington. Twenty-four of the 26 units rent for \$465 per month, the remaining two at slightly higher rents. Fair Market Rent in 2009 for a one bedroom in Yakima County was \$563 with efficiency rent falling at \$480. They are considered affordable to low-income individuals.

In 2009, Yakima Federal provided a \$488,250 loan for the purchase of a 24 unit apartment complex located in a middle-income census tract in Moses Lake, Washington. These units have a market rent estimate of \$400. Efficiency rent in Grant County for 2009 was \$413, with a one bedroom renting for \$491. This complex falls well below the one bedroom rental cost that is considered affordable for low-income wage earners. Additionally, Moses Lake is classified as a distressed census tract.

Institution (continued)

In 2010, Yakima Federal funded a \$955,000 loan for the purchase of a 63 unit apartment complex located in a middle income census tract in Prosser, Washington.

In 2010, Yakima Federal funded a \$1.2 loan for the construction of a new dental clinic in Ellensburg, Washington. The area is an underserved census tract and suffers from high rates of poverty.

Yakima Federal also approved a church loan for \$112,000 which was located in a moderate-income census tract. The church provides services utilized by low- or moderate-income individuals.

The institution has actively worked with various nonprofit organizations throughout the assessment areas to promote the construction and financing of affordable housing, and to promote community development activities. These programs are discussed in more detail under Innovative or Flexible Lending Practices.

INNOVATIVE OR FLEXIBLE LENDING PRACTICES

During the review period, Yakima Federal made extensive use of innovative and or flexible lending practices targeted to meet the credit needs of low- and moderate-income and first-time homebuyers, including loans originated in conjunction with a multitude of programs. The institution offers a variety of innovative products in conjunction with organizations and programs serving affordable housing needs. During the review period, the institution originated loans totaling \$1.1 million under the following programs:

The institution made a total of 12 loans for \$491,700 to Habitat for Humanity (both Yakima Valley Partners as well as Tri-County Partners). With this program, Habitat for Humanity applies for a loan to cover construction costs and upon approval; Yakima Federal waives the Due on Sale clause, allowing Habitat to sell the house under a real estate contract to a selected family. Habitat ensures the homeowners meet their contractual obligations and Yakima Federal waives all fees associated with the loan origination. The interest rate is set at 1.0 percent below the current 30 year purchase rate.

The institution made a total of four loans for \$311,120 through the Richland In-Fill program. This program provides affordable home ownership with innovative underwriting practices and down payment assistance in the form of reduced closing costs.

The institution made a total of eight loans for \$238,200 under the USDA Guaranteed and/or Leveraged 90 percent home purchase programs. The program is directed at the rural portions of the combined assessment area and offers first time homebuyers the opportunity to purchase a home with zero down and no private mortgage insurance.

Institution (continued)

These products demonstrate the variety of programs the institution has engaged in, and the efforts that have been made to reach out to the low- and moderate-income borrowers of the community. Yakima Federal has also partnered with community and government organizations to offer additional programs that are not widely available. These initiatives are designed to specifically help meet the needs of the assessment area community and require a significant amount of time and expertise to sponsor. Below is a brief summary of some of these initiatives.

YWCA – The local YWCA purchased a new building for \$1.0 million with the intention of renovating it to suit their needs. Knowing that the renovation costs would place a financial burden on the group, Yakima Federal sought out an alternative/flexible solution to help ease any potential cash flow issues.

Home\$tart - This grant program from the Federal Home Loan Bank of Seattle provides down payment assistance for first time home buyers by providing savings at a three to one match, not to exceed \$5,000. Qualifying applicants have one year to save the funds required. Yakima Federal was approved for this program in 1999 and has been active each year since. In 2010; however, the FHLB did not have the money to fund the Home\$tart program, and as such lenders were unable to participate.

Yakima Federal also served as program administrator to help disburse Home\$tart funds across the state. Through a partnership with Habitat for Humanity, Yakima Federal allowed use of Home\$tart funds by any Habitat for Humanity family within the state. Yakima Federal was able to utilize the full apportionment of grants (roughly \$200,000 each year) that would have otherwise gone unused. Yakima Federal underwrites the application packages received from Habitat affiliates for compliance with FHLB guidelines and ensures the proper documents are recorded at closing to protect the FHLB's interest. This approach is unique to Yakima Federal as most lenders only allow use of the program to loans they are originating.

Opportunities Industrialization Centers (OIC) - Through this partnership, Yakima Federal finances new home construction and rehabilitated home purchases. The institution provides first mortgage loans which are combined with low interest loans from the Washington State Housing Finance Commission along with down payment assistance from the City of Yakima and the FHLB's Home\$Start program. All borrowers are at or below the 80 percent median income levels with the most emphasis on borrowers below 60 percent of the median income. Very few lenders if any offer this type of program.

Institution (continued)

INVESTMENT TEST

CONCLUSION

Yakima Federal's "Outstanding" Investment Test rating is based on a significant level of qualified investments relative to its size and marketplace. The institution also showed excellent responsiveness to credit and community development needs, with a majority of investments directly impacting the Combined Assessment Area and a broader statewide area. Yakima Federal made extensive use of innovative or complex vehicles to support community development initiatives.

During the review period, Yakima Federal made \$462,332 in qualifying community development investments, affecting 709 multifamily housing units. In addition, the institution had another 27 loans affecting 1,351 multifamily housing units in the pipeline waiting funding. These loans were not included in the overall totals for investments as they had not been funded during the review period. The total dollar amount of these participations was not readily available due to the status of the investments.

Yakima Federal's primary conduit for qualified CRA investments is through the Washington Community Reinvestment Association (WCRA). The WCRA is a private, nonprofit organization created and supported by a member group of financial institutions in the state of Washington. WCRA mission is to create investments, which are not routinely provided by private investors. WCRA administers three revolving loan pools totaling approximately \$105 million; Yakima Federal participates in two of these programs. The lending programs provide long term financing to support the creation and preservation of low-income and special needs housing as well as real estate based economic development projects in all parts of Washington.

Yakima Federal contributed \$103,250 in various qualifying community development grants during the review period within the Combined Assessment Areas, to organizations such as:

- Washington Main Street Program
- Camp Prime Time
- Habitat For Humanity
- Yakima Valley Homeownership Fair
- Catholic Charities Housing Services
- Washington State Farmworker Housing Trust
- Enterprise for Progress in the Community
- Washington State Coalition For The Homeless
- Union Gospel Mission

Institution (continued)

SERVICE TEST

CONCLUSION

Yakima Federal's "Outstanding" Service Test rating is based on readily accessible delivery systems that are easily available to all portions of the Combined Assessment Areas. The institution's services are designed to provide convenience and address the needs of the Combined Assessment Areas. Yakima Federal is a leader in providing community development services in the Combined Assessment Areas. The following sections contain the data supporting these conclusions.

RETAIL BANKING SERVICES

Accessibility of Delivery System

The bank's ten branches are located in various census tracts throughout the assessment area. The main branch is located in a low-income tract. One branch is located in a moderate-income tract and six are located in middle-income tracts. The remaining two branches are located in upper-income census tracts.

Yakima Federal's branches are located in the most populous portions of the assessment areas. The branch distribution is reasonable and accessibility to services is enhanced by the presence of 24-hour ATMs at each office. Network affiliations extend the availability of some banking services nationwide. The bank has free online banking and bill pay and customers may access their statements electronically with the newly added E-Statement option, which eliminates traditional paper statements. Customers may also bank by mail, and use telephone access (via an 800 number) to make basic account inquiries via an automated system.

The proprietary ATMs and telephone banking service accommodate English and Spanish. The bank also has bilingual employees available to assist both savings and lending customers in Spanish.

Changes in Branch Locations

Yakima Federal did not open or close any of the branch offices during the review period. The bank has maintained the same branching structure since the previous CRA performance evaluation.

Institution (continued)

Reasonableness of Business Hours and Services

Each branch offers the full range of the savings and lending products and is open from 9 AM to 5 PM Mondays through Thursdays. All of the offices have extended hours on Fridays and offer drive-up facilities, which open at 8:30 AM.

Yakima Federal offers traditional savings and deposit products, including free notary services and travelers checks to customers. Even though the bank is a portfolio lender, Yakima Federal is still able to offer flexible lending products (discussed further under the Lending Test) that can assist low- and moderate-income customers. On the deposit side, the bank offers products including a no fee passbook account with a minimum balance of \$1.00. The bank's Freedom Checking account expands access to low- and moderate-income customers. The account only requires a \$100 minimum opening deposit, has no monthly service fees or minimum maintenance balance requirements, and a VISA check or ATM/POS card is available for no fee. The bank also has a Home Starter Account which is a higher rate certificate account that encourages savings for home purchase down payments. Yakima Federal offers online banking which is available 24 hours a day, seven days a week and provides account information, transaction history and to transfer funds between Yakima Federal accounts including making loan payments. The bank's "Bill Pay" is a free service to pay bills to third parties from Yakima Federal checking accounts. With the Bill Pay service, there is no limit on the number of payments that can be made without a fee.

COMMUNITY DEVELOPMENT SERVICES

Yakima Federal routinely works with a multitude of community organizations to provide social services and assist in the development and financing of housing for low- and moderate-income families. In addition to the many hours of qualified community development services discussed below, the institution's Board, senior management and staff have demonstrated their commitment to the community by providing many hours of time to organizations in capacities that do not necessarily qualify as services for community development. However, this time should reflect that Yakima Federal is a good corporate citizen and is dedicated to the community it serves.

During the review period, Board members, senior management, and lending staff have donated approximately 3,831 hours of time qualifying as community development service. Such service includes but is not limited to the following:

- The CEO and Senior Vice President served as a member of the finance committee for the Catholic Charities. This organization is dedicated to providing social services and affordable housing to low-income individuals and people in need.

Institution (continued)

- The Savings Administration, SVP serves as the Board Treasurer for Camp Prime Time. Camp Prime Time has established a recreational facility for terminally or seriously ill and disabled children and their families.
- A Branch Manager and SVP serves as the treasurer for the Ellensburg Downtown Association. The mission of this non-profit is to enhance the economic and cultural vibrancy of the historic downtown area.
- An officer serves as the Treasurer for the ARC of Yakima County. The ARC is a non-profit organization that develops programs and services for people with developmental disabilities and support for their families.
- An officer serves as the President Elect of the YWCA of Yakima and plays a direct role in the financial dealings with this non-profit that specifically provides services to women. The majority of these women are low-income and from homes with unstable living conditions.

Fair Lending or Other Illegal Credit Practices Review

In June 2010 we performed a comprehensive examination of Yakima Federal. We reviewed the evaluation of compliance with consumer laws and regulations performed at that examination and did not identify any illegal credit practices that violate law, rule, or regulation.

Institution

Kennewick-Richland-Pasco, WA MSA

(For assessment area or area reviewed using examination procedures.)

Summary of Institution's Operations in Kennewick-Richland-Pasco, WA Metropolitan Statistical Area (MSA)

As of December 31, 2010, Yakima Federal had five branch offices serving the Richland-Kennewick-Pasco MSA (Kennewick-Richland Assessment Area). Four of the branch offices are located in Benton County. The fifth branch office is located in Franklin County. Yakima Federal reported total deposits of \$512.6 million in these offices, which represented 38.7 percent of total institution deposits. The branch offices are full service, offering the full range of Yakima Federal's loan and deposit products.

Description of Kennewick-Richland-Pasco, Washington MSA

The Kennewick-Richland assessment area is comprised of Benton and Franklin Counties located in South-Central Washington and make up the Kennewick-Richland-Pasco, Washington Metropolitan Statistical Area (MSA). The state of Oregon is located on the southern border of Benton County. The counties have a total combined area of 3,025 square miles of land.

Table D1 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 has increased 28.0 percent and is an estimated 245,649 persons. The assessment area houses nearly four percent of the population of the state of Washington. The increase in population and the number and types of housing units suggest a single family lender would have reasonable lending opportunities. The Department of Energy provides a strong base for the region's economy. Federal stimulus money provided for the Hanford nuclear plant clean-up which has helped the area weather the national recession. Agriculture also plays an important part in the economy and there is a substantial food processing component. Like the Yakima assessment area, tourism is on the rise in this region due to the growing number of wineries.

Table D1 – Demographic Overview	
Demographic Data	2000 Census
Population	191,822
Total Families	49,802
Total Housing Units	72,047
1-4 Family Units	50,651
Occupied Units	67,706
% Owner-Occupied Units	63%
% Rental Units	33%
% Vacant Housing Units	6%
Median Housing Value	\$106,639

There are a total of 16 financial service providers in the assessment area consisting of both State and Federally chartered institutions. With over \$512 million in deposits, Yakima Federal ranked 1st with a market share of nearly 23.0 percent.

Table D2 - Assessment Area Family Income Distribution Based on 2010 Median Family Income (MFI) and 2000 Census Data				
Income Category	Assessment Area			
	% MFI	Maximum Income	# of Families	% of Families
Low	<50%	\$32,499	10,073	20.2%
Moderate	50% - <80%	\$51,999	9,163	18.4%
Middle	80% - <120%	\$77,999	10,838	21.8%
Upper	≥120%	NA	19,728	39.6%
Total			49,802	100.0%

Table D2 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 relatively even proportions of low-, moderate- and middle-income families, suggesting a potential demand for housing.

However, the median housing value in Table D1 suggests families in the low-income range may face challenges in finding affordable homeownership opportunities. That value reflects housing costs identified in the 2000 Census, and may be understated during significant portions of the evaluation timeframe.

The HUD-updated weighted average median income for the assessment area was \$61,200 in 2008; rose to \$64,800 in 2009 and rose again in 2010 to \$65,000. Table D3 shows the most current available unemployment rates published by the Bureau of Labor Statistics for the assessment area compared to the state of Washington for the review period.

Table D3 – Assessment Area Annual Average Unemployment Rate			
	2009	2008	2007
Washington	8.9	5.4	4.6
Kennewick-Richland-Pasco, Washington MSA	7.1	5.3	5.1

Table D4 details the distribution of assessment area population by census tract income levels. The table indicates the largest proportion of the population is located in middle-income census tracts which suggest reasonable opportunities for lending in those areas.

Table D4 - Assessment Area Demographic Information			
Income Category	# of Tracts	2000 US Census Data Distributions	
		Family Distribution	
		#	%
Low	2	2,829	5.7%
Moderate	7	7,965	16.0%
Middle	21	26,510	53.2%
Upper	7	12,498	25.1%
NA	0	0	0%
Total	37	49,802	100.0%

Conclusions with Respect to Performance Tests in Kennewick-Richland-Pasco,
Washington MSA

LENDING TEST

In order to assess the institution's performance under the requirements of the Lending Test, an analysis was performed of the volume, geographic distribution, and borrower income distribution of loans granted during the review period in the Kennewick-Richland Assessment Area. Lending was also reviewed to determine the use of innovative and flexible credit products, particularly in meeting the credit needs of economically disadvantaged geographies and persons. The volume and complexity of the institution's community development lending was reviewed as an additional component of this evaluation. Results were compared to Census data, and to 2009 Home Mortgage Disclosure Act (HMDA) data.

CONCLUSION

Yakima Federal's "High Satisfactory" rating under the Lending Test is based on a good level of lending volume relative to its status as a portfolio lender and a good record of lending within low- and moderate-income geographies. The institution had a good record of lending to low- and moderate-income borrowers and displayed a good responsiveness to the credit needs of low-income individuals and areas. Yakima Federal also had a relatively high level of community development lending and utilized innovative and flexible lending products extensively. The following sections contain the data supporting these conclusions.

LENDING ACTIVITY

During the review period, Yakima Federal originated 947 HMDA-reportable mortgage loans totaling \$162.2 million. The total mortgage lending activity represented 31.7 percent of total assessment area deposits (\$512.6 million). In 2009, Yakima Federal held a 2.1 percent market in the number of mortgage loans originated and ranked 15th out of 276 HMDA reporters in the Kennewick-Richland assessment area.

GEOGRAPHIC DISTRIBUTION OF LOANS

Yakima Federal's record of lending in low-income geographies was generally comparable to other HMDA reporting institutions but lending in moderate-income geographies was weaker when compared to other HMDA reporting institutions. Yakima Federal's lending results are reasonable based on the institution's business model as a portfolio lender and that large institutions such as Wells Fargo, Bank of America and US Bank are leading the market share. Yakima Federal meets the

standards for satisfactory performance. Table G4 illustrates Yakima Federal’s loan originations compared to other HMDA reporting institutions.

Table G4 – Geographic Distribution of HMDA-Reportable Loans By Census Tract Income Level in the Assessment Area				
Census Tract Income Category	# of Loans	% of Loans	2009 HMDA Aggregate	Family Distribution
Low	10	1.0%	1.7%	5.7%
Moderate	44	4.7%	9.2%	16.0%
Middle	468	49.4%	51.4%	53.2%
Upper	425	44.9%	37.7%	25.1%
Total	947	100.0%	100.0%	100.0%

NA = Not Available

Yakima Federal ranked 11th out of 86 HMDA reporters that originated mortgage loans in low- and moderate-income census tracts in 2009, with a market share of 1.8 percent by count.

LENDING TO BORROWERS OF DIFFERENT INCOMES

A review of Yakima Federal’s loan originations shows that lending to low- and moderate-income borrowers was slightly lower when compared to other HMDA reporting institutions. Yakima Federal ranked 11th out of 121 institutions originating mortgage loans to low- and moderate-income borrowers in the assessment area with a market share of 2.8 percent. The institution meets the standards for satisfactory performance when considering Yakima Federal’s business model and the fact that it is ranked just below the large national mortgage originators mentioned previously. Table B3 illustrates Yakima Federal’s performance compared to other HMDA reporting institutions.

Table B3 – Distribution of Residential Mortgage Loans By Borrower Income Level in the Assessment Area				
Borrower Income Category	# of Loans	% of Loans	2009 HMDA Aggregate	Family Distribution
Low	41	4.3%	7.0%	20.2%
Moderate	119	12.6%	17.2%	18.4%
Middle	176	18.6%	23.2%	21.8%
Upper	524	55.3%	37.0%	39.6%
Income Not Avail.	87	9.2	15.6%	-
Total	947	100.0%	100.0%	100.0%

NA = Not Available

RESPONSIVENESS TO CREDIT NEEDS

- During the review period, Yakima Federal originated, 41 mortgage loans, totaling \$3.1 million, to low-income borrowers within the Kennewick-Richland Assessment Area. This represented 4.3 percent by count of all loans originated with income data collected. This performance was lower compared to the 2009 HMDA aggregate results of 7.0 percent.
- In 2009, the institution ranked 11th out of 68 HMDA reporters in originating loans to low-income borrowers in this assessment area, with a market share of 2.3 percent by count. This ranking is an improvement from the previous examination where the institution was ranked 14th.
- During the review period, Yakima Federal originated, 10 mortgage loans, totaling just over \$1.0 million, in low-income tracts within the Richland-Kennewick Assessment Area. This represented 1.0 percent by count of all loans originated with income data collected. This performance was generally comparable to that of the 2009 HMDA aggregate results of 1.7 percent.
- In 2009, the institution ranked 15th out of 39 HMDA reporters in originating loans in low-income tracts in this assessment area, with a market share of 1.9 percent by count. This ranking is considerably stronger than the previous examination's rank of 34th.

COMMUNITY DEVELOPMENT LENDING

Yakima Federal made a relatively high level of community development loans during the review period which specifically benefitted this assessment area and the institution's larger combined assessment area. See the Institution section for specific detail on the institution's various community development loans.

INNOVATIVE OR FLEXIBLE LENDING PRACTICES

During the review period, Yakima Federal utilized innovative and/or flexible lending practices extensively to meet the credit needs of low- and moderate-income and first-time homebuyers. The institution uses a multitude of programs to originate these loans and as a portfolio lender, Yakima Federal is able to offer flexible products that meet the need of organizations and programs serving affordable housing needs. This includes owner-occupied single-family home loans with no maximum loan-to-value ratio.

Please refer to the Innovative or Flexible Lending Practices discussion of the Institution section of this Evaluation for more detailed information.

INVESTMENT TEST

CONCLUSION

Yakima Federal's performance under the Investment Test is rated "Outstanding." Much of the institution's investment activity benefits a broad statewide area that includes the assessment area. Please refer to the Institution Investment Test section for further details.

SERVICE TEST

CONCLUSION

Yakima Federal's "Outstanding" Service Test rating is based on the readily accessible delivery systems that are accessible to all portions of the assessment area. The record of opening and closing offices has not adversely affected accessibility of any delivery systems. The institution tailors its services to the convenience and needs of the Kennewick-Richland Assessment Area. Yakima Federal has been a leader in providing community development services. The following sections contain the data supporting these conclusions.

RETAIL BANKING SERVICES

Accessibility of Delivery System

There are five branches in this assessment area. Four of the branches are located in middle-income tracts and one is in an upper-income tract. Branch offices are located in the most populous parts of the assessment areas and the office distribution is reasonable considering the area is rural in nature and residents typically must travel some distance for services. The institution has increased accessibility to services with the 24-hour ATMs located at each office. Yakima Federal has network affiliations that extend the availability of some banking services nationwide. The institution also offers bank by mail, and telephone access (via an 800 number) to make basic account inquiries via an automated system.

The proprietary ATMs accommodate English and Spanish, as does the telephone banking service. The institution has bilingual employees available to assist both savings and lending customers in Spanish.

Changes in Branch Locations

There were no branches opened or closed, or changes in locations during the review period in this assessment area.

Reasonableness of Business Hours and Services

The branch offers the institution's complete range of the savings and lending products and the office is open from 9 AM to 5 PM Mondays through Thursdays, with extended hours on Fridays. The drive-up facilities open beginning at 8:30 AM.

In addition to the standard savings and deposit products, the institution has free notary services and travelers checks available to customers. For being a portfolio lender, the institution is able to offer some fairly flexible lending products (discussed further under the Lending Test) that can assist low- and moderate-income customers. Savings products include a no-fee passbook account with a minimum balance of \$1.00. Yakima Federal offers a checking account that requires a \$100 minimum opening deposit, but with no monthly service fees or minimum balance requirements, and a VISA check or ATM/POS card for no fee. The institution also offers a higher rate certificate account to encourage savings for home purchase down payments.

COMMUNITY DEVELOPMENT SERVICES

Yakima Federal has been a leader in providing community development services throughout its assessment areas. Please refer to the Institution section Community Development Services discussion for further details.

Yakima, Washington MSA

Summary of Institution's Operations in Yakima, Washington, MSA

As of December 31, 2010, Yakima Federal had the home office and three branch offices serving Yakima County (Yakima Assessment Area). The institution reported total deposits of \$650.6 million in these offices, which represented just over 49.0 percent of total institution deposits. The branches are full service, offering the full range of Yakima Federal's loan and deposit products.

Description of Yakima, Washington MSA

The Yakima assessment area is comprised of Yakima County located in Central Washington and makes up the Yakima, Washington Metropolitan Statistical Area (MSA). With a total area of 4,312 square miles of land, the county is the second largest by area in the state of Washington.

Table D1 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 has increased 7.4 percent and is an estimated 239,054 persons. The assessment area houses a little more than three percent of the population of the state of Washington. The increase in population and the number and types of housing units suggest a single family lender would have reasonable lending opportunities. Agriculture is the region's strongest industry. Yakima County produces much of the nation's and world's supply of certain food crops. There has been employment growth in the health services industry and recently the Pacific Northwest University of Health Services medical school opened in Yakima. Tourism is also on the rise fueled by the increase in small wineries throughout the county.

Demographic Data	2000 Census
Population	222,581
Total Families	54,921
Total Housing Units	79,174
1-4 Family Units	59,980
Occupied Units	73,993
% Owner-Occupied Units	60%
% Rental Units	36%
% Vacant Housing Units	6%
Median Housing Value	\$105,549

There are a total of 15 financial service providers in the assessment area consisting of both State and Federally chartered institutions. With over \$650 million in deposits, Yakima Federal ranked 1st with a market share of nearly 27.0 percent.

Table D2 - Assessment Area Family Income Distribution Based on 2010 Median Family Income (MFI) and 2000 Census Data				
Income Category	Assessment Area			
	% MFI	Maximum Income	# of Families	% of Families
Low	<50%	\$25,399	11,230	20.4%
Moderate	50% - <80%	\$40,639	10,257	18.7%
Middle	80% - <120%	\$60,959	11,267	20.5%
Upper	≥120%	NA	22,167	40.4%
Total			54,921	100.0%

Table D2 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 relatively even proportions of low-, moderate- and middle-income families, suggesting a potential demand for housing.

However, the median housing value in Table D1 suggests families in the low-income range may face challenges in finding affordable homeownership opportunities. That value reflects housing costs identified in the 2000 Census, and may be understated during significant portions of the evaluation timeframe.

The HUD-updated weighted average median income for the assessment area was \$48,000 in 2008; rose to \$50,900 in 2009 and decreased slightly 2010 to \$50,800. Table D3 shows the most current available unemployment rates published by the Bureau of Labor Statistics for the assessment area compared to the state of Washington for the review period.

Table D3 – Assessment Area Annual Average Unemployment Rate			
	2009	2008	2007
Washington	8.9	5.4	4.6
Yakima, Washington MSA	8.5	6.6	6.1

Table D4 details the distribution of assessment area population by census tract income levels. The table indicates the largest proportion of the population is located in middle-income census tracts which suggest reasonable opportunities for lending in those areas.

Table D4 - Assessment Area Demographic Information			
Income Category	# of Tracts	2000 US Census Data Distributions	
		Family Distribution	
		#	%
Low	2	1,451	2.6%
Moderate	10	14,552	26.5%
Middle	14	21,476	39.1%
Upper	8	17,442	31.8%
Total	34	54,921	100.0%

Discussion of Performance in Yakima, Washington MSA

LENDING TEST

In order to assess the institution's performance under the requirements of the Lending Test, an analysis was performed of the volume, geographic distribution, and borrower income distribution of loans granted during the review period in the Yakima Assessment Area. Lending was also reviewed to determine the use of innovative and flexible credit products, particularly in meeting the credit needs of economically disadvantaged geographies and persons. The volume and complexity of the institution's community development lending were reviewed as an additional component of this evaluation. Performance was compared to 2000 Census data, and to 2009 Home Mortgage Disclosure Act (HMDA) data.

CONCLUSION

Yakima Federal's "High Satisfactory" rating under the Lending Test is based on the excellent lending volume relative to its status as a portfolio lender and good record of lending within low- and moderate-income geographies. The institution had a good record of lending to low- and moderate-income borrowers and displayed a good responsiveness to the credit needs of low-income individuals and areas. Yakima Federal had a relatively high level of community development lending and used innovative and flexible lending products extensively. The following sections contain the data supporting these conclusions.

LENDING ACTIVITY

During the review period, Yakima Federal originated 1,214 HMDA-reportable mortgage loans totaling \$183.7 million. The total mortgage lending activity represented 28.2 percent of total assessment area deposits (\$650.6 million). In 2009, Yakima Federal held a 4.2 percent market in the number of mortgage loans originated and ranked 4th out of 253 HMDA reporters in Yakima County.

GEOGRAPHIC DISTRIBUTION OF LOANS

Yakima Federal's record of lending in low- and moderate-income geographies was generally commensurate to other HMDA reporting institutions and meets the standards for satisfactory performance. Table G4 illustrates Yakima Federal's loan originations compared to other HMDA reporting institutions.

Table G4 – Geographic Distribution of HMDA-Reportable Loans By Census Tract Income Level in the Assessment Area				
Census Tract Income Category	# of Loans	% of Loans	2009 HMDA Aggregate	Family Distribution
Low	5	<1.0%	<1.0%	2.6%
Moderate	134	11.0%	12.1%	26.5%
Middle	410	33.8%	35.8%	39.1%
Upper	665	54.8%	51.4%	31.8%
Total	1,214	100.0%	100.0%	100.0%

NA = Not Available

Yakima Federal ranked 3rd out of 80 HMDA reporters that originated mortgage loans in low- and moderate-income census tracts in 2009, with a market share of 8.0 percent by count. These results are impressive when considering one of the top two institutions is Wells Fargo Bank.

LENDING TO BORROWERS OF DIFFERENT INCOMES

A review of Yakima Federal’s loan originations shows that lending to low- and moderate-income borrowers was lower when compared to other HMDA reporting institutions. Yakima Federal ranked 7th out of 96 institutions originating mortgage loans to low- and moderate-income borrowers in the assessment area with a market share of 5.6 percent, an improvement from the 8th place ranking at the previous examination. The institution meets the standards for satisfactory performance when considering Yakima Federal’s business model and the fact that it is ranked just below large national mortgage originators such as Wells Fargo Bank and Bank of America. Yakima Federal’s performance compared to other HMDA reporting institutions.

Table B3 – Distribution of Residential Mortgage Loans By Borrower Income Level in the Assessment Area				
Borrower Income Category	# of Loans	% of Loans	2009 HMDA Aggregate	Family Distribution
Low	20	1.7%	4.4%	20.4%
Moderate	129	10.6%	14.7%	18.7%
Middle	202	16.6%	21.9%	20.5%
Upper	780	64.3%	42.4%	40.4%
Income Not Avail.	83	6.8	16.6	-
Total	1,214	100.0%	100.0%	100.0%

NA = Not Available

RESPONSIVENESS TO CREDIT NEEDS

- During the review period, Yakima Federal originated 20 loans, totaling \$1.5 million, to low-income borrowers within the Yakima Assessment Area. This represented 1.6 percent of all loans originated with income data collected. This performance was weaker than that of the 2009 HMDA aggregate results of 4.4 percent.
- In 2009, the institution ranked 11th out of 68 HMDA reporters in originating loans to low-income borrowers in this assessment area, with a market share of 2.3 percent. The institution's ranking improved slightly from 12th at the previous examination.
- During the review period, the institution originated five loans totaling \$286,000 in low-income tracts within the Yakima Assessment Area. This represented 0.4 percent of total originations by count. This result is comparable to the 2009 HMDA aggregate, which originated 0.6 percent of its mortgage loans in low-income census tracts.
- In 2009, Yakima Federal ranked 16th of 17 HMDA reporters that originated loans in low-income areas, an improvement from the previous examination.

COMMUNITY DEVELOPMENT LENDING

Yakima Federal made a relatively high level of community development loans during the review period which specifically benefitted this assessment area and the institution's larger combined assessment area. See the Institution section for specific detail on the institution's various community development loans.

INNOVATIVE OR FLEXIBLE LENDING PRACTICES

During the review period, Yakima Federal utilized innovative and/or flexible lending practices extensively to meet the credit needs of low- and moderate-income and first-time homebuyers. The institution uses a multitude of programs to originate these loans and as a portfolio lender, Yakima Federal is able to offer flexible products that meet the need of organizations and programs serving affordable housing needs. This includes owner-occupied single-family home loans with no maximum loan-to-value ratio.

Please refer to the Innovative or Flexible Lending Practices discussion of the Institution section of this Evaluation for more detailed information.

INVESTMENT TEST

CONCLUSION

Yakima Federal's performance under the Investment Test is rated "Outstanding." Much of the institution's investment activity benefits a broad statewide area that includes the assessment area. Please refer to the Institution Investment Test section for further details.

SERVICE TEST

CONCLUSION

Yakima Federal's "Outstanding" Service Test rating is based on the readily accessible delivery systems that are accessible to all portions of the assessment area. The record of opening and closing offices has not adversely affected accessibility of any delivery systems. The institution tailors its services to the convenience and needs of the Yakima Assessment Area. Yakima Federal has been a leader in providing community development services. The following sections contain the data supporting these conclusions.

RETAIL BANKING SERVICES

Accessibility of Delivery System

The institution currently has four branches in the assessment area. One office is located in a low-income tract, one is in a moderate-income tract, one is in a middle-income tract, and one is in an upper-income tract. Branch offices are located in the most populous parts of the assessment areas and the office distribution is reasonable considering the area is rural in nature and residents typically must travel some distance for services. The institution has increased accessibility to services with the 24-hour ATMs located at each office. Yakima Federal has network affiliations that extend the availability of some banking services nationwide. The institution also offers bank by mail, and telephone access (via an 800 number) to make basic account inquiries via an automated system.

The proprietary ATMs accommodate English and Spanish, as does the telephone banking service. The institution has bilingual employees available to assist both savings and lending customers in Spanish.

Changes in Branch Locations

There were no branches opened or closed, or changes in locations during the review period in this assessment area.

Reasonableness of Business Hours and Services

The branch offers the institution's complete range of the savings and lending products and the office is open from 9 AM to 5 PM Mondays through Thursdays, with extended hours on Fridays. The drive-up facilities open beginning at 8:30 AM.

In addition to the standard savings and deposit products, the institution has free notary services and travelers checks available to customers. For being a portfolio lender, the institution is able to offer some fairly flexible lending products (discussed further under the Lending Test) that can assist low- and moderate-income customers. Savings products include a no-fee passbook account with a minimum balance of \$1.00. Yakima Federal offers a checking account that requires a \$100 minimum opening deposit, but with no monthly service fees or minimum balance requirements, and a VISA check or ATM/POS card for no fee. The institution also offers a higher rate certificate account to encourage savings for home purchase down payments.

COMMUNITY DEVELOPMENT SERVICES

Yakima Federal has been a leader in providing community development services throughout its assessment areas. Please refer to the Institution section Community Development Services discussion for further details.

Kittitas County, Washington

Summary of Institution's Operation in Kittitas County, Washington

As of December 31, 2010, Yakima Federal had one branch office serving Kittitas County (Kittitas Assessment Area). The institution reported total deposits of \$159.7 million in this office, which represented just over 12.0 percent of total institution deposits. The branch office is full service, offering the full range of Yakima Federal's loan and deposit products.

Description of Kittitas County, Washington

The Kittitas assessment area is comprised of Kittitas County located in Central Washington and is not part of any larger Metropolitan Statistical Area (MSA). The county has a total area of 2,333 square miles of which 2,297 is land and 36 is water.

Table D1 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 has increased more than 18.0 percent and is an estimated 39,532 persons. The assessment area houses less than one percent of the population of the state of Washington. The increase in population and the number and types of housing units suggest a single family lender would have reasonable lending opportunities; however, the housing market in the Kittitas assessment area has rapidly deteriorated with the recession. As lending criteria grew more stringent, lenders required larger down payments

Table D1 – Demographic Overview	
Demographic Data	2000 Census
Population	33,362
Total Families	7,831
Total Housing Units	16,475
1-4 Family Units	11,730
Occupied Units	13,382
% Owner-Occupied Units	47%
% Rental Units	36%
% Vacant Housing Units	18%
Median Housing Value	\$134,128

which forced many families, investors and retirees out of the market. Additionally, according to the US Census Bureau, five of the eight census tracts in Kittitas County are designated as distressed. A distressed area is generally defined as one having an unemployment rate of at least 1.5 times the national average or a poverty rate of at least 20 percent, or has a median family income at or below 80 percent of the area median family income. The region's strongest industry is government, which is driven by the presence of Central Washington University. Natural resource industries also contribute to the economy, including agriculture, manufacturing services, and trade.

There are a total of 10 financial service providers in the assessment area consisting of both State and Federally chartered institutions. With over \$159 million in deposits, Yakima Federal ranked 1st with a market share of 28.0 percent.

Table D2 - Assessment Area Family Income Distribution Based on 2010 Median Family Income (MFI) and 2000 Census Data				
Income Category	Assessment Area			
	% MFI	Maximum Income	# of Families	% of Families
Low	<50%	\$27,699	1,416	18.1%
Moderate	50% - <80%	\$44,319	1,279	16.3%
Middle	80% - <120%	\$66,479	1,694	21.6%
Upper	≥120%	NA	3,442	44.0%
Total			7,831	100.0%

Table D2 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 relatively even proportions of low-, moderate- and middle-income families, suggesting a potential demand for housing.

However, the median housing value in Table D1 suggests families in the low-income range may face challenges in finding affordable homeownership opportunities. That value reflects housing costs identified in the 2000 Census, and may be understated during significant portions of the evaluation timeframe.

The HUD-updated weighted average median income for the assessment area was \$52,600 in 2008; rose to \$54,500 in 2009 and increased again in 2010 to \$55,400. Table D3 shows the most current available unemployment rates published by the Bureau of Labor Statistics for the assessment area compared to the state of Washington for the review period.

Table D3 – Assessment Area Annual Average Unemployment Rate			
	2009	2008	2007
Washington	8.9	5.4	4.6
Kittitas County	8.6	5.7	4.7

Table D4 details the distribution of assessment area population by census tract income levels. The table indicates a large proportion of the population is located in middle- and upper-income census tracts which would typically suggest reasonable opportunities for lending in those areas. However, as mentioned previously, the assessment area is largely dominated by distressed census tracts, which may impact lending in the assessment area.

Table D4 - Assessment Area Demographic Information			
Income Category	# of Tracts	2000 US Census Data Distributions	
		Family Distribution	
		#	%
Low	0	0	0%
Moderate	1	888	11.3%
Middle	5	4,779	61.1%
Upper	2	2,164	27.6%
Total	8	7,831	100.0%

Discussion of Performance in Kittitas County, Washington

LENDING TEST

In order to assess the institution's performance under the requirements of the Lending Test, an analysis was performed of the volume, geographic distribution, and borrower income distribution of loans granted during the review period in the Kittitas Assessment Area. Lending was also reviewed to determine the use of innovative and flexible credit products, particularly in meeting the credit needs of economically disadvantaged geographies and persons. The volume and complexity of the institution's community development lending were reviewed as an additional component of this evaluation. Performance was compared to 2000 Census data, and to 2009 Home Mortgage Disclosure Act (HMDA) data.

CONCLUSION

Yakima Federal's "High Satisfactory" rating under the Lending Test is based on the good level of lending volume relative to its status as a portfolio lender and an excellent record of lending within moderate-income geographies. The institution had a strong record of lending to low- and moderate-income borrowers and displayed a good responsiveness to the credit needs of low-income individuals and areas. There was a relatively high level of community development lending and the institution used innovative and flexible lending products extensively. The following sections contain the data supporting these conclusions.

LENDING ACTIVITY

During the review period, Yakima Federal originated 261 HMDA-reportable mortgage loans totaling \$40.1 million. The total mortgage lending activity represented 25.1 percent of total assessment area deposits (\$159.7 million). In 2009, Yakima Federal held a 3.6 percent market in the number of mortgage loans originated and ranked 9th out of 192 HMDA reporters in Kittitas County.

GEOGRAPHIC DISTRIBUTION OF LOANS

Yakima Federal's record of lending in moderate-income geographies was very good. There are no low-income census tracts in the Kittitas assessment area. Table G4 illustrates Yakima Federal's loan originations compared to other HMDA reporting institutions. The institution's performance was better than the peer and results were also higher than the population distributions for the assessment area. Yakima Federal exceeds the standards for satisfactory performance.

Table G4 – Geographic Distribution of HMDA-Reportable Loans By Census Tract Income Level in the Assessment Area				
Census Tract Income Category	# of Loans	% of Loans	2009 HMDA Aggregate	Family Distribution
Moderate	31	11.9%	11.2%	11.3%
Middle	151	57.8%	59.4%	61.1%
Upper	79	30.3%	29.4%	27.6%
Total	261	100.0%	100.0%	100.0%

NA = Not Available

Yakima Federal ranked 3rd out of 51 HMDA reporters that originated mortgage loans in moderate-income census tracts in 2009, with a market share of 7.4 percent by count. The institution is ranked behind such institutions as Cornerstone Mortgage Company and Wells Fargo Bank, both of which are large, national lenders.

LENDING TO BORROWERS OF DIFFERENT INCOMES

A review of Yakima Federal’s loan originations shows that lending to low-income borrowers was generally comparable to other HMDA reporting institutions and strong when comparing loan originations to moderate-income borrowers. Yakima Federal ranked 5th out of 50 institutions originating mortgage loans to low- and moderate-income borrowers in the assessment area with a market share of 6.7 percent. The institution exceeds the standards for satisfactory performance when considering Yakima Federal’s business model and the fact that it is ranked just below large national mortgage originators such as JPMorgan Chase and US Bank. Table B3 illustrates Yakima Federal’s performance compared to other HMDA reporting institutions.

Table B3 – Distribution of Residential Mortgage Loans By Borrower Income Level in the Assessment Area				
Borrower Income Category	# of Loans	% of Loans	2009 HMDA Aggregate	Family Distribution
Low	2	<1.0%	1.6%	18.1%
Moderate	29	11.1%	8.9%	16.3%
Middle	46	17.6%	19.7%	21.6%
Upper	181	69.3%	55.3%	44.0%
Income Not Avail.	3	1.1%	14.5%	-
Total	261	100.0%	100.0%	100.0%

NA = Not Available

RESPONSIVENESS TO CREDIT NEEDS

- During the review period, Yakima Federal originated 29 loans, totaling more than \$2.8 million, to moderate-income borrowers within the Kittitas Assessment Area. This represented 11.1 percent of all loans originated with income data collected. This performance compared favorably to the 2009 HMDA aggregate results of 8.9 percent.

- In 2009, the institution ranked 17th out of 17 HMDA reporters making loans to low-income borrowers, with a 2.9 percent market share. Both the market share and ranking are lower than for the overall lending in the assessment area. However, given that the competition includes large-national mortgage originators such as Bank of America, US Bank, and JPMorgan Chase, the institution's performance is considered reasonable.
- A comparison of lending to borrowers in low-income geographies was not performed as there are no low-income tracts within the Kittitas Assessment Area.

COMMUNITY DEVELOPMENT LENDING

Yakima Federal made a relatively high level of community development loans during the review period which specifically benefitted this assessment area and the institution's larger combined assessment area. See the Institution section for specific detail on the institution's various community development loans.

INNOVATIVE OR FLEXIBLE LENDING PRACTICES

During the review period, Yakima Federal used innovative and/or flexible lending practices extensively to meet the credit needs of low- and moderate-income and first-time homebuyers. The institution uses a multitude of programs to originate these loans and as a portfolio lender, Yakima Federal is able to offer flexible products that meet the need of organizations and programs serving affordable housing needs. This includes owner-occupied single-family home loans with no maximum loan-to-value ratio.

Please refer to the Innovative or Flexible Lending Practices discussion of the Institution section of this Evaluation for more detailed information.

INVESTMENT TEST

CONCLUSION

Yakima Federal's performance under the Investment Test is rated "Outstanding." Much of the institution's investment activity benefits a broad statewide area that includes the assessment area. Please refer to the Institution Investment Test section for further details.

SERVICE TEST

CONCLUSION

Yakima Federal's "Outstanding" Service Test rating is based on the readily accessible delivery systems that are accessible to all portions of the assessment area. The record of opening and closing offices has not adversely affected accessibility of any delivery systems. The institution tailors its services to the convenience and needs of the Kittitas Assessment Area. Yakima Federal has been a leader in providing community development services. The following sections contain the data supporting these conclusions.

RETAIL BANKING SERVICES

Accessibility of Delivery System

The branch office in this assessment area is located in a middle-income tract and is located in the most populous part of the assessment area. The office distribution is reasonable considering the area is rural in nature and residents typically must travel some distance for services. The institution has increased accessibility to services with the 24-hour ATMs located at each office. Yakima Federal has network affiliations that extend the availability of some banking services nationwide. The institution also offers bank by mail, and telephone access (via an 800 number) to make basic account inquiries via an automated system.

The proprietary ATMs accommodate English and Spanish, as does the telephone banking service. The institution has bilingual employees available to assist both savings and lending customers in Spanish.

Changes in Branch Locations

There were no branches opened or closed, or changes in locations during the review period in this assessment area.

Reasonableness of Business Hours and Services

The branch offers the institution's complete range of the savings and lending products and the office is open from 9 AM to 5 PM Mondays through Thursdays, with extended hours on Fridays. The drive-up facilities open beginning at 8:30 AM.

In addition to the standard savings and deposit products, the institution has free notary services and travelers checks available to customers. For being a portfolio lender, the institution is able to offer some fairly flexible lending products (discussed further under the Lending Test) that can assist low- and moderate-income customers. Savings products include a no-fee passbook account with a minimum balance of \$1.00. Yakima Federal offers a checking account that requires a \$100 minimum opening deposit, but with no monthly service fees or minimum balance requirements, and a VISA check or ATM/POS card for no fee. The institution also offers a higher rate certificate account to encourage savings for home purchase down payments.

COMMUNITY DEVELOPMENT SERVICES

Yakima Federal has been a leader in providing community development services throughout its assessment areas. Please refer to the Institution section Community Development Services discussion for further details.

Appendix A

Scope of Examination

SCOPE OF EXAMINATION		
Full Scope CRA Evaluation		
TIME PERIOD REVIEWED:	January 1, 2008 through December 31, 2010	
FINANCIAL INSTITUTION		PRODUCTS REVIEWED
Yakima FS & LA		Home Mortgage Disclosure Act Loans
AFFILIATE(S)	AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED
None		

LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED ¹	OTHER INFORMATION
Kennewick-Richland-Pasco, Washington MSA	Full Scope	0	
Yakima, Washington MSA	Full Scope	0	
Kittitas County, Washington	Full Scope	0	

¹ There is a statutory requirement that the written evaluation of a multistate institution's performance must list the individual branches examined in each state.

Appendix B

Summary of State and Multistate Metropolitan Area Ratings

This page intentionally left blank as Yakima Federal does not have any multistate metropolitan areas in its combined assessment areas.

CRA Rating Definitions

There are five separate and distinct CRA assessment methods set forth in the CRA: the lending, investment, and service tests for large, retail institutions; the intermediate small institution test for intermediate small savings associations; the streamlined examination method for small institutions; the community development test for wholesale and limited purpose institutions; and the strategic plan option for all institutions. OTS will assign an institution one of the four assigned ratings required by Section 807 of the CRA:

1. "Outstanding record of meeting community credit needs."
2. "Satisfactory record of meeting community credit needs."
3. "Needs to improve record of meeting community credit needs."
4. "Substantial noncompliance in meeting community credit needs."

OTS judges an institution's performance under the test and standards in the rule in the context of information about the institution, its community, its competitors, and its peers. Among the factors to evaluate in an examination are the economic and demographic characteristics of the assessment area(s); the lending, investment, service, and community development opportunities in the assessment area(s); the institution's product offerings and business strategy; the institution's capacity and constraints; the prior performance of the institution; in appropriate circumstances, the performance of a similarly situated institution; and other relevant information. An institution's performance need not fit each aspect of a particular rating profile in order to receive that rating, and exceptionally strong performance with respect to some aspects may compensate for weak performance in others. The institution's overall performance, however, must be consistent with safe and sound banking practices and generally with the appropriate rating profile. In addition, OTS adjusts the evaluation of an institution's performance under the applicable assessment method in accordance with §563e.21 and §563e.28, which provide for adjustments on the basis of evidence of discriminatory or other illegal credit practices.