



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 24, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**North Cascades National Bank
Charter Number 21107**

**220 Johnson Ave.
Chelan, WA 98816**

**Comptroller of the Currency
1501 4th Avenue, Suite 1190
Seattle, WA 98101**

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.</p>

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **North Cascades National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of September 19, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated “**Satisfactory.**”

A majority of the bank's loans are in its assessment area and reflect both a reasonable geographic distribution and reasonable dispersion among individuals of different income levels and businesses of different sizes. North Cascades National Bank (NCNB) demonstrates a reasonable loan-to-deposit ratio given the bank's size, its capacity to lend, and the market in which it operates. NCNB has received no written complaints with respect to the CRA since the prior OCC examination.

DESCRIPTION OF INSTITUTION:

North Cascades National Bank is a community bank headquartered in Chelan, Washington with three branches in surrounding towns. The bank serves Okanogan county, and parts of Chelan and Douglas counties which include the towns of Chelan, Twisp, Pateros, Omak and Okanogan. The bank is in sound financial condition and has total assets of \$98 million as of June 30, 1997. Net loans represent approximately 51% of the banks assets.

NCNB's primary focus is lending to small businesses and small farms, which account for 78% of the bank's loan portfolio. The remainder is made up of residential real estate (15%) and consumer loans (7%). The volume of residential loans is greater than is indicated by the composition of the loan portfolio as the bank sells most of its residential loans on the secondary market. For example, over the period January 1, 1996 through August 31, 1997 the bank sold 352 government guaranteed residential and farm loans for over \$76 million.

DESCRIPTION OF ASSESSMENT AREA:

NCNB’s assessment area consists of all of Okanogan county, five block numbering areas (BNA’s) in Chelan county, and one BNA in Douglas county. The assessment area meets the requirements of the CRA regulation and does not arbitrarily exclude low or moderate income geographies. Based on 1990 Census Data, the bank’s assessment area contains 14 BNA’s and has a population of 47,419. The following table shows the number and percent of BNA’s by income level, and the percent of total families residing in those block numbering areas. There are no low or upper income BNA’s in the assessment area.

INCOME CHARACTERISTIC OF BNA	# OF TOTAL BNA’S	% OF TOTAL BNA’S	% OF TOTAL FAMILIES
Moderate Income	6	43%	51%
Middle Income	8	57%	49%
TOTAL:	14	100%	100%

The statewide non-metropolitan median family income is \$29,672 based on 1990 Census Data. This data was updated to \$35,100 in 1997 by the Department of Housing and Urban Development (HUD). The median housing value for Okanogan and Douglas counties based on 1990 Census Data was relatively low at \$49 thousand and \$41 thousand, respectively. Bank management indicated the current median housing value in these two counties is approximately \$80 thousand. In Chelan county the 1990 value was \$75 thousand, and has increased to \$120 thousand according to bank management, primarily due to out of area purchases by more affluent individuals living in Western Washington.

The primary economic drivers in the assessment area are tourism and agricultural products, as well as government employment. Competition is significant, generally from branches of regional financial institutions, credit unions and mortgage companies.

We contacted two community organizations in the bank’s assessment area to learn about credit needs within the community and how well financial institutions are addressing the needs of the community. They represented a community service organization and a local business group. Based on these discussions, there is a need for affordable housing and credit education for consumers.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

LOAN TO DEPOSIT RATIO

NCNB's loan-to-deposit ratio is reasonable given the bank's size, its capacity to lend, and the market in which it operates.

We analyzed NCNB's loan-to-deposit ratio over the period June 30, 1995 through March 31, 1997. During these eight quarters, the bank's loan-to-deposit ratio ranged from a high of 69.1% at June 30, 1995 to a low of 56.1% at March 31, 1997 with an average ratio of 60%.

We compared NCNB's performance under this criterion to three banks with total assets between \$25 million and \$100 million in central Washington. These banks had an average loan-to-deposit ratio over the same period of 72.6%.

NCNB's loan-to-deposit ratio is somewhat lower than peer. The bank sells almost all of its 1 to 4 family residential loan production. If these loans were not sold, the ratio would be considerably higher. Based on this information, NCNB's ratio is reasonable given the bank's size, its capacity to lend, and the market in which it operates.

LENDING IN THE ASSESSMENT AREA

A majority of the bank's loans were originated within its assessment area.

The bank collects geographic information on all loans. We sampled ten residential and ten small business loans to determine the accuracy of data collection. We found the data to be reliable. Consequently, we based our conclusions for the bank's lending performance on data supplied by the bank. We reviewed data for calendar year 1996, and for year-to-date 1997 through August 31.

The following tables show the number and dollar amount of NCNB's loans originated within and outside it's assessment area (AA).

Calendar Year 1996				
GEOGRAPHIC LOCATION OF LOANS	# OF TOTAL LOANS	% OF TOTAL LOANS	\$ OF TOTAL LOANS (000's)	% of \$ VOLUME OF TOTAL LOANS
Inside A. A.	596	89%	\$49,814	64%
Outside A. A.	75	11%	\$27,584	36%
TOTAL:	671	100%	\$77,398	100%

Period January 1, 1997 through August 31, 1997				
GEOGRAPHIC LOCATION OF LOANS	# OF TOTAL LOANS	% OF TOTAL LOANS	\$ OF TOTAL LOANS (000's)	% of \$ VOLUME OF TOTAL LOANS
Inside A. A.	351	87%	\$21,793	61%
Outside A. A.	51	13%	\$14,075	39%
TOTAL:	402	100%	\$35,868	100%

As evidenced by the data, on average the bank is originating approximately 88% of the number of loans and 62% of the dollar volume of loans within the assessment area. This is considered satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES

Overall, the distribution of borrowers reflects reasonable penetration among individuals of different incomes and businesses of different sizes.

Commercial and farm loans account for 78% of the banks loan portfolio. The bank's analysis utilizes the size of loans to businesses, but not the gross annual revenues of businesses. Small businesses are characterized as those with gross annual revenues of \$1 million or less. We analyzed a sample of 25 commercial loans to estimate the distribution of the bank's business loans among businesses of different sizes.

BUSINESS LENDING DISTRIBUTION:

The following table shows the distribution of business loans by revenue size of the business.

Distribution of business loans by revenue size of business

GROSS BUSINESS REVENUES	# OF LOANS REVIEWED	% OF LOANS REVIEWED
\$0 - \$100,000	9	36%
\$100,001 - \$250,000	6	24%
\$250,001 - \$500,000	7	28%
\$500,001 - \$1,000,000	2	8%
\$1,000,001 +	1	4%
TOTAL:	25	100%

The data reflects a reasonable distribution of business loans among businesses of different sizes. In total, 96% of the sampled loans were to businesses with gross annual revenues of \$1 million or less., and 36% were to very small businesses with revenues less than \$100 thousand. The banks high level of loans to small businesses reflects very good performance, considering that only 79% of the businesses in the assessment area have revenues of \$1 million or less according to 1996 Dun and Bradstreet demographic data.

The following table shows the distribution of business loans originated in 1996 through August 31, 1997.

Distribution of business loans by original amount of loan

GROSS BUSINESS LOAN SIZE	# OF LOANS	% OF LOANS
\$0 - \$100,000	145	88%
\$100,001 - \$250,000	10	6%
\$250,001 - \$500,000	9	5%
\$500,001 - \$1,000,000	1	1%
\$1,000,001 +	0	0%
TOTAL:	165	100%

As evidenced by the tables on the previous page, the bank originated 96% of its loans to small businesses with 88% of the loans originated at \$100 thousand or less.

BORROWER LENDING DISTRIBUTION:

We also reviewed a sample of twenty-five 1 to 4 family residential loans to determine the bank’s distribution of loans to individuals of different incomes. The bank originated 165 business loans over the period January 1, 1996 through August 31, 1997, and 345 1 to 4 family residential loans over this period. The following table shows the distribution of these loans among borrowers of different incomes.

Income distribution of 1 to 4 family residential loans

APPLICANT INCOME AS a PERCENT OF MSA MEDIAN	% OF TOTAL FAMILIES	# OF 1 TO 4 FAMILY RESIDENTIAL LOANS	% OF 1 TO 4 FAMILY RESIDENTIAL LOANS
Low Income	27%	2	8%
Moderate Income	23%	2	8%
Middle Income	21%	7	28%
Upper Income	29%	14	56%
TOTAL:	100%	25	100%

As evidenced by the data, 50% of the families in the assessment area are low or moderate income, but only 16% of the bank’s 1 to 4 family residential loans were made to individuals with low to moderate incomes.

Management provided the following explanation for this lending distribution to low and moderate income borrowers. Land values in the Chelan vicinity (BNA’s 9603 & 9604) have far out paced income growth in the area, primarily due to purchases by more affluent individuals in Western Washington. As a result, individuals seeking financing in this area tend to be in the middle or upper income categories. This directly affects the banks lending distribution as it is headquartered in Chelan, and originated 37% of it’s 1 to 4 family residential loans in these two BNA’s.

A portion of the low and moderate income families are members of the Colville Indian Reservation which is served by it’s own credit union. As a non-profit institution, the credit union can offer terms and conditions more favorable to tribal members than can the bank, as well as being more conveniently located.

We consider the distribution of loans to individuals of different incomes to be reasonable.

GEOGRAPHIC DISTRIBUTION OF LOANS

Overall, the geographic distribution of the bank's loans reflects reasonable dispersion throughout its assessment area.

We used the banks data (January 1, 1996 through August 31, 1997) to analyze the distribution among BNA's of various income levels for small farm, small business and 1 to 4 family residential loans. The following tables compare the distribution of small farm and small business loans to the income distribution of BNA's.

Geographic distribution of small farm loans

INCOME CHARACTERISTIC OF BNA'S	% OF TOTAL BNA'S	# OF TOTAL SMALL FARM LOANS	% OF TOTAL LOANS
Moderate Income	43%	52	33%
Middle Income	57%	104	67%
TOTAL:	100%	156	100%

Geographic distribution of small business loans

INCOME CHARACTERISTIC OF BNA'S	% OF TOTAL BNA'S	# OF TOTAL SMALL BUSINESS LOANS	% OF TOTAL LOANS
Moderate Income	43%	50	30%
Middle Income	57%	115	70%
TOTAL:	100%	165	100%

As evidenced by the data, the distribution of small farm and small business loans generally corresponds to the income distribution of BNA's and reflects reasonable dispersion among moderate and middle income BNA's throughout the bank's assessment area.

Geographic distribution of 1 to 4 family residential loans

INCOME CHARACTERISTIC OF BNA'S	% OF TOTAL BNA'S	# OF TOTAL 1 TO 4 FAMILY RESIDENTIAL LOANS	% OF TOTAL LOANS
Moderate Income	43%	57	17%
Middle Income	57%	288	83%
TOTAL:	100%	345	100%

As evidenced by the data, the distribution of 1 to 4 family residential loans is skewed primarily to middle income BNA's. The total population of the assessment area is 47,419, of which 51% reside in moderate income BNA's.

Two of the BNA's are not located near the banks branches and are served by other financial institutions. The closest town of any size in these two BNA's is approximately 30 miles from the banks nearest branch. Also, the Colville Indian Reservation, which comprises 17% of the moderate income BNA's, is served by it's own credit union.

We consider the geographic distribution of 1 to 4 family residential loans to be reasonable.

RESPONSE TO COMPLAINTS

NCNB has not received any consumer complaints since our last examination related to its CRA performance.

RECORD OF COMPLYING WITH ANTIDISCRIMINATION LAWS

We did not identify any violations of the substantive provisions of antidiscrimination laws and regulations.