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Comptroller of the Currency  
Administrator of National Banks

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Small  
Bank

## **PUBLIC DISCLOSURE**

**September 20, 1999**

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

**Redmond National Bank  
Charter Number 18746**

**15801 NE 85<sup>th</sup> Street  
Redmond, Washington 98052**

**Comptroller of the Currency  
50 Fremont Street, Suite 3900  
San Francisco, California 94105**

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

## **GENERAL INFORMATION**

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

This document is an evaluation of the CRA performance of **Redmond National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of September 20, 1999. 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**".

Redmond National Bank demonstrates a reasonable loan-to-deposit ratio given the bank's size, its capacity to lend, and the market in which it operates. 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. There have been no consumer complaints related to the bank's performance under the CRA since our last examination.

## **DESCRIPTION OF INSTITUTION**

Redmond National Bank (RNB) is a community bank located in the city of Redmond, WA. The bank was founded in 1988 and is a wholly-owned subsidiary of Washington Commercial Bancorp, a \$50 million one-bank holding company located in Redmond, WA.

In addition to its main office, the bank has one branch in the Redmond area. The branch was opened in October 1997 in Town Center, a newer retail mall located just a few miles from the main office. An ATM is provided at each location, and the bank began providing a courier service for business customers in July 1998. No offices have been closed since our last examination. The majority of the bank's lending is concentrated in the east region of King County, including the cities of Redmond, Kirkland, Bellevue, Woodinville and Bothell.

RNB has average assets of nearly \$50 million as of June 30, 1999. The bank offers a variety of retail bank products and services, including all manner of deposit- and loan-related services. These include commercial, real estate, and consumer loan products. Gross loans total \$39.5 million and represent nearly 78% of the bank's total assets.

Competition from other financial institutions is significant, with numerous commercial banks, savings and loans, credit unions and mortgage companies vying for business.

RNB's primary focus is on small business lending. This focus is reflected in the composition of the bank's loan portfolio. Based on the latest available Call Report data for June 30, 1999, commercial and commercial real estate loans total \$29.4 million and represent 74% of gross loans, residential real estate loans total \$8 million and represent 20%, and consumer loans total \$2 million and represent 5%.

This performance evaluation focuses on the bank's two primary lending categories -- commercial loans and residential real estate loans, and assesses RNB's performance during the period January 1997 through June 1999 (assessment period).

RNB is an active member of the Washington Community Reinvestment Association (WCRA). WCRA is a nonprofit mortgage banking consortium consisting of 31 financial institutions in the state of Washington. WCRA's priority is to provide long-term financing for affordable multifamily housing in the state, and targets residents in the low- and moderate-income range. During the assessment period, RNB originated 32 loans representing \$460 thousand to the WCRA for various multifamily housing projects. Several of these projects are located in the bank's assessment area.

The bank also offers loans guaranteed by the Small Business Administration (SBA). During the assessment period, RNB originated 26 SBA loans representing over \$4.2 million. The bank originated an additional \$1.6 million under the SBA's 504 program.

RNB received a Satisfactory rating for meeting its community's credit needs during the previous OCC performance evaluation dated October 18, 1996. The bank is not subject to any lending impediments or supervisory restrictions.

## **DESCRIPTION OF ASSESSMENT AREA**

The bank's assessment area (AA) consists of portions of the Seattle-Bellevue-Everett, King County Metropolitan Statistical Area (MSA) #7600 and includes the cities of Redmond, Kirkland, Bellevue, Issaquah, Woodinville, and Bothell among others. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income census tracts.

Based on 1990 Census Data, the AA contains 41 census tracts with a total population of 247,934 and 66,011 families. Over 75% of the families are considered middle- or upper-income, while only 10% are low-income.

The following table shows the number and percent of census tracts by income level, and the percent of total families residing in those geographies.

INCOME CHARACTERISTIC OF CENSUS TRACT	# OF TOTAL CENSUS TRACTS	% OF TOTAL CENSUS TRACTS	% OF TOTAL FAMILIES
Low Income	0	0%	0%
Moderate Income	2	5%	4%
Middle Income	20	49%	47%
Upper Income	19	46%	49%
TOTAL:	41	100%	100%

As evidenced by the data, the majority of the population lives in middle and upper income geographies. The AA does not contain any low-income census tracts.

The 1990 Census Median Family Income for the AA is \$43,103. The Department of Housing and Urban Development (HUD) has estimated the 1999 Updated Median Family Income at \$62,600, an increase of 45% since 1990. According to data from NW Multiple Listing Service, the median sales price for single family homes in King County in 1998 was \$214,950. This is an increase of 54% since 1990.

Major employment sectors in the MSA include services (29%), retail & wholesale trade (23%), manufacturing (17%) and government (14%). Major employers in the area include The Boeing Company, Microsoft Corporation, and the University of Washington. The unemployment rate through May 1998 was only 2.7%. Overall economic conditions in the assessment area are strong.

We conducted one new community contact and reviewed other community contacts initiated by the OCC and other federal financial institution regulators to determine credit needs in the area. These contacts indicate local financial institutions are generally meeting the credit needs of the community. However, there exists a continuing need for affordable housing, as well as small business financing.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

### **LOAN TO DEPOSIT RATIO**

We analyzed RNB's loan-to-deposit ratio over the last eight quarters from September 1997 through June 1999. During these eight quarters, the loan-to-deposit ratio ranged from a low of 70% in December 1998 to a high of 85% in June 1999, with an average ratio of 74%.

We compared RNB's performance under this criteria to other national and state chartered banks in the same MSA with total assets less than \$100 million. The sample totaled 11 banks as of June 30, 1999, with average total assets of \$48 million. This sample provides a reasonable comparison. These banks have an average loan-to-deposit ratio over the same period of 77%. Based on this information, RNB's loan-to-deposit ratio is reasonable given the bank's size, its capacity to lend, and the market in which it operates.

### **LENDING IN THE ASSESSMENT AREA**

During the assessment period, RNB originated a total of 696 loans representing \$85.6 million. The majority of these originations were commercial and commercial real estate loans (414 or 59%). The bank maintains census tract information on its residential loans, but does not routinely collect this data for the business loans it originates.

To determine the bank's lending performance in its assessment area, we selected a sample of 31 business loans totaling \$4.7 million originated during the assessment period. We determined their geographic distribution based on the census tract associated with the borrower or business. The following table shows the distribution of the business loan sample inside and outside the assessment area.

### **BUSINESS LOAN SAMPLE**

<b>LOAN ORIGINATIONS</b>	<b>NUMBER OF LOANS</b>	<b>% NUMBER OF LOANS</b>	<b>AMOUNT OF LOANS (\$000'S)</b>	<b>% AMOUNT OF LOANS</b>
<b>INSIDE ASSESSMENT AREA</b>	20	65%	\$2,118	45%
<b>OUTSIDE ASSESSMENT AREA</b>	11	35%	\$2,604	55%
<b>TOTAL</b>	31	100%	\$4,722	100%

As demonstrated above, a majority of the number of business loans in our sample were originated within the assessment area, while more dollars were disbursed outside the assessment area.

We tested the validity of census tract information collected by the bank for 1-4 family residential loans originated during the assessment period and found this data to be reliable. The following table shows the distribution of 1-4 family residential loans inside and outside the assessment area.

## **1-4 FAMILY RESIDENTIAL REAL ESTATE LOANS**

<b>LOAN ORIGINATIONS</b>	<b>NUMBER OF LOANS</b>	<b>% NUMBER OF LOANS</b>	<b>AMOUNT OF LOANS (\$000'S)</b>	<b>% AMOUNT OF LOANS</b>
<b>INSIDE ASSESSMENT AREA</b>	30	57%	\$2,831	49%
<b>OUTSIDE ASSESSMENT AREA</b>	23	43%	\$2,893	51%
<b>TOTAL</b>	53	100%	\$5,724	100%

As evidenced by the data, a majority of the bank's 1-4 family residential loans were originated within its assessment area, while the dollar volume was evenly distributed inside and outside the assessment area.

Overall, the majority of RNB's loans were originated within the bank's assessment area. This meets the standard for satisfactory performance.

## **LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES AND FARMS OF DIFFERENT SIZES**

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

## **DISTRIBUTION OF BUSINESS AND FARM LOANS BY REVENUE SIZE OF BUSINESS OR FARM**

Small business loans are characterized as loans to businesses and farms with gross annual revenues less than \$1 million. As the bank does not collect and maintain revenue data on its business loans, we used our loan sample to determine the geographic distribution of the bank's business loans. The sample includes 20 loans totaling \$2.1 million. The following table shows the distribution by revenue size of business loans in our sample that were originated within the assessment area. The table compares the distribution to the demographics of the reporting businesses in the assessment area.

## **DISTRIBUTION OF BUSINESS AND FARM LOANS BY REVENUE SIZE**

GROSS BUSINESS & FARM REVENUES (000'S)	# OF BUSINESSES & FARMS IN ASSESSMENT AREA	% OF BUSINESSES & FARMS IN ASSESSMENT AREA	BUSINESS LOAN SAMPLE # OF LOANS	BUSINESS LOAN SAMPLE % OF LOANS
\$0 - \$1000	13,610	88%	14	70%
\$1,000+	1,931	12%	6	30%
<b>TOTAL:</b>	<b>15,541</b>	<b>100%</b>	<b>20</b>	<b>100%</b>

The data reflects a reasonable distribution of loans among businesses of different sizes. While the percentage is below that of area demographics, the results of our sample indicate a substantial majority of business loans originated by the bank are to small businesses.

A more detailed breakdown of our sample of business loans by revenue size further demonstrates a reasonable dispersion of loans to businesses of different sizes:

## **DISTRIBUTION OF BUSINESS & FARM LOANS BY REVENUE SIZE**

GROSS BUSINESS & FARM REVENUES (000'S)	# OF LOANS REVIEWED	% OF LOANS REVIEWED
\$0 - \$99	5	25%
\$100 - \$249	3	15%
\$250 - \$499	6	30%
\$500 - \$1000	0	0%
\$1,000+	6	30%
<b>TOTAL:</b>	<b>20</b>	<b>100%</b>

The data demonstrates RNB is making loans to small businesses of different sizes, particularly very small businesses.

We also analyzed the bank's 1-4 family residential loans. We tested the validity of the bank's data concerning the income of its residential borrowers and found the data to be reliable. We analyzed all residential loans originated within the bank's assessment area during the assessment period to determine the distribution among borrowers of different income levels. The following table shows the distribution of these loans by borrower income level and compares it to the distribution of families in the assessment area by income level.

## INCOME DISTRIBUTION OF 1-4 FAMILY RESIDENTIAL LOANS

APPLICANT INCOME AS A PERCENT OF MEDIAN	% OF TOTAL FAMILIES (1990 CENSUS)	# OF 1 TO 4 FAMILY RESIDENTIAL LOANS	% OF 1 TO 4 FAMILY RESIDENTIAL LOANS
Low Income	10%	1	3%
Moderate Income	15%	2	7%
Middle Income	25%	12	40%
Upper Income	50%	15	50%
TOTAL:	100%	30	100%

The data shows the bank originated a lower percentage of loans to low- and moderate-income applicants than are represented by the demographics of the assessment area.

This is primarily due to the lack of affordable housing. As previously mentioned, the 1998 median sales price of single-family homes in King County is nearly \$215 thousand, and even higher in East King County where the bank is located. In addition, the median sales price of single-family homes has risen 54% from 1990 to 1998, while the level of median family income has risen only 45% during the same period. These factors make it extremely difficult for low- or moderate-income individuals to afford even a low priced house in the assessment area.

As a result, multi-family housing has become one of the fastest growing components in the local market. In fact, multi-family housing now represents a greater share of total housing units than does single-family housing in the cities of Redmond, Kirkland and Issaquah.

Based on the nature of the bank's market and the small business focus of the bank, we do not consider the income distribution of the bank's 1-4 family mortgage loans unreasonable.

## GEOGRAPHIC DISTRIBUTION OF LOANS

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

We used our sample of business loans to estimate the geographic distribution of the bank's loans among census tracts of various income levels. The following table compares the distribution of the loans we reviewed to the income distribution of census tracts.

## GEOGRAPHIC DISTRIBUTION OF BUSINESS AND FARM LOANS

INCOME CHARACTERISTIC OF TRACT/BNA	% OF TOTAL TRACTS/BNA'S	# OF TOTAL BUSINESS & FARM LOANS	% OF TOTAL BUSINESS & FARM LOANS
Low Income	0%	0	0%
Moderate Income	5%	8	40%
Middle Income	49%	3	15%
Upper Income	46%	9	45%
TOTAL:	100%	20	100%

The data shows a reasonable distribution among census tracts of various income levels.

RNB is located in one of two moderate-income census tracts in the assessment area and lends to a good number of businesses located nearby. This accounts for the bank's strong performance in this income category.

We also analyzed the bank's 1-4 family residential loans. We tested the validity of the bank's data for the geographic distribution of this loan type and found it to be reliable. The following table compares the geographic distribution of the bank's residential loans in the assessment area to the percentage of owner-occupied housing in those same geographies.

## GEOGRAPHIC DISTRIBUTION OF 1-4 FAMILY RESIDENTIAL LOANS

INCOME CHARACTERISTIC OF TRACT/BNA	% OWNER - OCCUPIED (1990 CENSUS)	# OF 1 TO 4 FAMILY RESIDENTIAL LOANS	% OF 1 TO 4 FAMILY RESIDENTIAL LOANS
Low Income	0%	0	0%
Moderate Income	2%	3	10%
Middle Income	45%	14	47%
Upper Income	53%	13	43%
TOTAL:	100%	30	100%

The data reflects a reasonable distribution among census tracts of various income levels. In fact, a slightly higher percentage of loans were originated in moderate income census tracts than the percentage of owner-occupied housing in those census tracts.

## **RESPONSE TO COMPLAINTS**

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

## **RECORD OF COMPLYING WITH ANTIDISCRIMINATION LAWS**

A concurrent fair lending examination did not identify any evidence of prohibited discriminatory practices. As part of our examination, we reviewed a sample of approved and denied credit applications and examined lending policies and practices. We did not identify any violations involving illegal discrimination or any practices intended to discourage applicants from applying for credit.