



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

November 28, 2011

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Commerce Bank of Washington, N.A.  
Charter Number: 18752

601 Union St., Suite 3600  
Seattle, Washington 98101

Office of the Comptroller of the Currency

Assistant Deputy Comptroller – Midsize Bank Supervision  
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**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

## **INSTITUTION'S CRA RATING: This institution is rated Satisfactory**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Outstanding.**

The major factors that support this rating for The Commerce Bank of Washington, N.A. (CBW) include:

- CBW's loan-to-deposit ratio is reasonable.
- A majority of the bank's loans are within the bank's assessment area.
- Distribution of loans to businesses of different sizes is poor.
- The distribution of CBW's commercial loans reflects an excellent dispersion among geographies of different income levels.
- CBW demonstrated an excellent responsiveness to community development needs and opportunities in the bank's assessment areas.

### **Scope of Examination**

CBW was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and a community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of the bank's assessment area (AA) through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and community development services.

The lending test for CBW covers its performance from January 1, 2007 through June 30, 2011. The evaluation period for the CD test is from May 15, 2007 to November 28, 2011.

CBW's primary loan product is small loans to businesses. While the bank is not required to report this loan data, management elected to collect it and present it for analysis. This data was tested and found to be reliable. Therefore, it was used to evaluate the bank's lending test performance. The bank reports home mortgage data under the requirements of the Home Mortgage Disclosure Act (HMDA). However, the number of HMDA loans the bank originates is minimal, as CBW originates only these loans as an accommodation to its customers. Therefore, home mortgage loans were not selected as a primary loan product for analysis.

## Description of Institution

CBW is an intrastate bank headquartered in Seattle, Washington. As of September 30, 2011, the bank had assets of \$939 million. CBW is wholly-owned by Zions Bancorporation, a multi-bank holding company with consolidated assets of \$52 billion as of September 30, 2011. CBW has only one office, which is located on the 36<sup>th</sup> floor of a downtown Seattle office tower. This corporate structure does not facilitate the usual retail focus of most banks. It has one paying/receiving teller, no drive through facilities, and no automated teller machines (ATMs). The single office organization is enhanced by a courier service which provides services to customers at their local business locations.

The bank offers a varied range of deposit and loan products and services which are customized to meet the individual needs of each customer. The bank's primary focus is business lending. Consumer and mortgage loan products are offered only as an accommodation to CBW's existing customers and their families. Deposit products are geared to the needs of the bank's business customers.

As of September 30, 2011, CBW reported net loans and leases of \$579 million and had a net loans and leases to average assets ratio of 64.9%. The loan portfolio composition is as follows:

Loan Portfolio Summary by Loan Product September 30, 2011	
Loan Category	% of Outstanding Dollars
Business Loans	79.0%
Home Loans	11.6%
Other Loans	5.2%
Consumer Loans	3.5%
Farm Loans	.7%

There are no legal or financial impediments to CBW's ability to meet the credit and CD needs of its assessment area. The bank was rated Satisfactory at its last CRA examination, dated May 14, 2007.

## Description of Assessment Area

CBW has one AA located in the northwest corner of the State of Washington. The AA is delineated around the bank's one location and consists of a portion of King County, located in the Seattle-Bellevue-Everett Metropolitan Division (MD). This MD is a part of the Seattle-Tacoma-Bellevue Metropolitan Statistical Area (MSA). The AA includes the cities of Seattle, Bellevue, Kirkland, and Mercer Island in King County. A majority (78 percent) of the population in the AA resides in Seattle. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income census tracts. The assessment area is described below:

<b>Demographic Information for the Seattle AA</b>					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	159	3.77%	19.50%	45.91%	30.82%
Population by Geography	722,981	3.93%	20.25%	46.78%	29.04%
Owner-Occupied Housing by Geography	168,630	0.81%	13.45%	49.36%	36.38%
Businesses by Geography	113,355	3.11%	19.38%	40.54%	36.97%
Farms by Geography	1,382	1.88%	18.16%	48.19%	31.77%
Family Distribution by Income Level	158,043	2.12%	17.24%	47.64%	33.00%
Household Distribution by Income Level	325,798	2.97%	20.40%	47.78%	28.85%
Census Median Family Income (MFI)	\$63,951	Median Housing Value (National Association of REALTORS June 2011)		\$287,000	
HUD-Adjusted MFI: 2011	\$86,800	Households Below the Poverty Level		9.51%	
		Unemployment Rate (Bureau of Labor Statistics September 2011)		8.5%	

Source: 2000 U.S. Census Data except as otherwise noted.

Statistics indicate that Seattle has one of the most educated workforces in the United States; 56 percent of persons over 25 have a BA degree or higher. Average employment wages also rank as one of the highest in the nation. However, like many other areas in the U.S., weaknesses in the national economy have severely impacted the local economy. Local economists characterize the economic downturn as the worst recession in its history since the Great Depression. During the review period, the AA experienced a sharp increase in job losses, foreclosures, and bankruptcies. *The Seattle Times*<sup>1</sup> reported that the median income in King County and Seattle dropped over the past few years. The portion of Seattle residents in poverty rose from 10.6 percent in 2009 to 14.7 percent as of September 2011. The unemployment rate, as of September 2011, was 8.5 percent as reported by the Bureau of Labor Statistics.

According to several recent surveys, Seattle has been consistently ranked as one of the best U.S. cities in which to locate a business. Key factors are Seattle's skilled workforce, manufacturing capability, education and research, quality transportation and infrastructure, access to international and domestic markets, and government accessibility. Seattle itself accounts for 1.93 million jobs. From January 1, 2007 through December 31, 2010 Seattle had 31,200 business openings and 24,900 closures. The largest employer in the City of Seattle proper is the University of Washington which employs 28,188 persons. The key industries in the MSA are aerospace (Boeing Company); information and communication technology companies such as Microsoft, Amazon, and Real Networks; clean technology industries; healthcare; biotechnology; and marine technology. The top ten companies located in King County are Costco Wholesale Corporation; Microsoft Corporation; Amazon.com, Inc.; Starbucks Corporation; Nordstrom, Inc.; Paccar Inc.; Weyerhaeuser Company; Expeditors International of Washington; Alaska Air Group, Inc.; and Expedia.

<sup>1</sup> September 22, 2011

According to the June 30, 2011 FDIC Deposit Market Share Report, 46 financial institutions operating approximately 350 branches are located in the bank's AA. The bank's competitors include several local community banks, branches of large regional institutions, and branches of large nationwide institutions. However, CBW does not have off-the-shelf products for small businesses, nor does it score credits in order to increase the efficiency of lending or to compete with other lenders. In addition, recent information indicates that most banks are not actively competing for business loans. Statistics gathered by the FDIC report that Washington-based institutions have shrunk their business loan portfolios in an effort to strengthen their balance sheets. "Bankers say the main cause of shrinking loan portfolios is a shortage of creditworthy borrowers. Their current borrowers are downsizing their inventories and paying down their debt in a dismal economy." Consequently, although there are numerous competing institutions located in CBW's AA, competition is considered moderate-to-low due to the factors discussed above.

There are a number of CD organizations that operate in the bank's AA which have significant CD needs. This offers many opportunities for banks to participate in CD activities. In conducting the assessment of the bank's performance, we contacted two local organizations. They noted that local CD organizations have seen a significant and increasing need for affordable housing, homeless shelters, services to low- and moderate-income (LMI) individuals, and contributions to food banks. Banks can help by providing long-term amortizing loans. There is a particular need for loans with competitive rates and lower fees to fund affordable housing buildings. Banks can also help by participating in pre-development loans to help develop affordable housing projects. In the future, bank loans will be needed to rehabilitate older buildings by installing energy efficient equipment. Banks can also help by offering non-profit organizations deposit products with low-cost fees. There is a significant need for donations to food banks, organizations that provide affordable housing and homeless shelters for LMI individuals, and organizations that provide services to LMI individuals, particularly given the loss of a very large foundation, which occurred when a large Washington-based financial institution failed. And there is a need for bank employees to train LMI individuals about alternatives to pay-day lending. Banks can also assist by becoming members of a non-profit organization involved in CRA lending to both non-profit and for-profit organizations that provide affordable housing and loans to small businesses. Each member bank in this organization funds a portion of each loan based on the member financial institution's deposits.

## Conclusions with Respect to Performance Tests

### LENDING TEST

CBW's performance under the lending test is "Satisfactory." The borrower distribution and the geographic distribution performance criteria received equal weight. CBW has poor penetration of loans among businesses of different sizes. However, geographic distribution is excellent.

#### Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the AA's credit needs. The bank's net loan-to-deposit ratio averaged 91.2 percent over the past 18 quarters since the last CRA examination. This ratio ranged from a quarterly low of 80.6 percent to a high of 105.6 percent during the review period.

The bank's net loan-to-deposit ratio compares favorably with other financial institutions of similar size, location, and product offerings. CBW ranks eighth among a total of 12 similarly situated banks. The average net loan-to-deposit ratios for the other 11 institutions over the same 18 quarters ranged from 83.1 percent to 114.3 percent.

#### Lending in Assessment Area

A majority of CBW's primary loan product was made within the bank's AA. The following table details the bank's lending within the AA by number and dollar amount of loans. Of the number of business loans originated/purchased, 78.9 percent were made in the bank's AA.

Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	1,388	78.9%	371	21.1%	1,759	308	75.6%	100	24.4%	408
Totals	1,388	78.9%	371	21.1%	1,759	308	75.6%	100	24.4%	408

Source: 1/1/2007 – 6/30/2011 collected small loans to businesses data.

#### Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The distribution of loans to businesses reflects poor distribution among businesses of different sizes. Of the bank's small loans to businesses originated and purchased during the review period, 23.7 percent were made to small businesses. Small businesses are businesses with gross annual revenues of one million or less. This is considered poor compared to demographic data which shows 65.8 percent of the area's businesses are considered small businesses. The following table shows the distribution of commercial loans among business of different sizes in the AA.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Seattle MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	65.8%	3.9%	30.3%	100.0%
% of Bank Loans in AA by #	23.7%	71.8%	4.5%	100.0%
% of Bank Loans in AA by \$	17.2%	81.7%	1.1%	100.0%

Source: 1/1/2007 – 6/30/2011 collected small loans to businesses data; Dun and Bradstreet data.

## Geographic Distribution of Loans

The bank's geographic distribution of business loans reflects excellent dispersion throughout the census tracts of different income levels within the bank's AA. There were no conspicuous lending gaps identified within CBW's AA. Both the portion of loans in low-income geographies and the portion of loans in moderate-income geographies significantly exceeded the demographic comparators. The following table details the bank's performance as compared to the percentage of businesses in each census tract income level.

<b>Table 3A - Geographic Distribution of Loans to Businesses in Seattle MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans						
Business	3.1%	4.6%	19.4%	27.0%	40.5%	27.7%	37.0%	40.7%

Source: 1/1/2007 – 6/30/2011 collected small loans to businesses data; Dun and Bradstreet data

## Responses to Complaints

The bank did not receive any CRA complaints during the evaluation period.

## COMMUNITY DEVELOPMENT TEST

The CD test is rated “Outstanding.” CBW has demonstrated excellent responsiveness to the CD needs of its AA, considering its size, capacity, and CD opportunities in its AA. During the evaluation period, CBW provided \$23.6 million in CD loans that benefit its assessment and a broader statewide or regional area. The bank also provided \$4.4 million in CD investments and had an additional \$1.6 million in prior period investments. In addition, bank personnel provided 1,855 hours of financial expertise to 14 CD organizations.

### Number and Amount of Community Development Loans

The bank originated seven CD loans totaling \$6.7 million in its AA since the previous examination.

- \$4.7 million provided affordable housing for LMI individuals in the bank’s AA.
- \$2 million provided services for LMI individuals in the AA.

In addition, the bank originated three CD loans at the statewide level totaling \$417 thousand and \$16.5 million at the broader regional area. These loans have the potential to also benefit the assessment area.

Since the bank has adequately addressed the community development needs in its AA, we also gave consideration to a CD loan made at the broader regional area that includes the bank’s AA, even though this loan has no potential to benefit the AA. The loan, totaling \$950 thousand, benefits a tribal entity located on a small island in southeastern Alaska. This island has a high poverty rate and a 20 percent unemployment rate. The funds will provide permanent working capital for a small fishing operation that provides seasonal jobs for LMI individuals.

### Number and Amount of Qualified Investments

CBW made one large investment during the review period and provided donations to several CD organizations. The investment and donations made during the current review period total \$4.4 million; all benefit the AA. The most notable are as follows:

- \$4.2 million represents an investment in a pool of mortgage-backed securities that benefit LMI borrowers.
- \$106 thousand consists of donations to three organizations that provide shelter, food, and other services to homeless individuals.
- \$30 thousand represents donations to the local United Way which directs the funds to organizations that provide services to LMI individuals.
- \$8 thousand consists of donations to an organization that provides food for low-income individuals.
- \$8 thousand consists of donations to an organization which provides services and housing to low-income and elderly individuals.

In addition, the bank had two prior period investments totaling \$1.6 million that remain outstanding. Both investments are mortgage backed securities that provide affordable housing for LMI individuals. One investment of \$673 thousand benefits the bank's AA, and a \$944 thousand investment benefits the bank's broader regional area without potential to benefit the AA.

### **Extent to Which the Bank Provides Community Development Services**

A number of bank officers provided 1,855 hours of financial expertise to 14 CD organizations. A majority of the organizations provide services to LMI individuals; three of the organizations provide low-cost housing for LMI individuals or shelter for homeless individuals.

CBW remains a major supporter of the Compass Center, a multi-service agency that assists homeless and low-income individuals by providing food, shelter, and services. CBW was a leader in implementing The Compass Center Bank (TCC Bank), which receives electronic Federal entitlement payments on behalf of homeless individuals. CBW helped TCC Bank set up its systems to allow customers to receive ACH payments through a second ABA Routing Transit Number for CBW and assigned specifically to TCC Bank. This allows transactions to route through that number and post to individual accounts in the institution. The individuals served by TCC Bank can maintain savings accounts for safekeeping cash. Clients are also able to set up budgets, build self-discipline, and establish safeguards against impulsive withdrawals for support of chemical dependencies or other reasons.

### **Responsiveness to Community Development Needs**

CBW's CD activities as a whole demonstrate an excellent responsiveness to the needs and opportunities in the AA. Specifically, CD organizations noted that donations are a significant need. The bank provided numerous donations that provide housing, food, and services for homeless and low-income individuals. CBW also participated in investments which consist of mortgages to LMI individuals. The bank also made a number of loans to organizations that provide low-cost or no-cost housing for low-income and homeless individuals both within the AA and in a broader statewide or regional area. The bank provided services to a number of CD organizations that provide services or affordable housing for LMI individuals.

### **Fair Lending or Other Illegal Credit Practices Review**

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