



Comptroller of the Currency
Administrator of National Banks

Small
Bank

PUBLIC DISCLOSURE

July 6, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Pioneer National Bank
Charter Number 16663**

**P.O. Box 766
Yakima, WA 98907**

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

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.
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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 **Pioneer National Bank** prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of **July 6, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.*

Institution's CRA Rating: This institution is rated "**Satisfactory**".

Pioneer 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. In addition, the bank sells a large proportion of both the residential and SBA loans it underwrites. If these loans were held in the bank's portfolio, the loan-to-deposit ratio would be significantly higher. 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.

DESCRIPTION OF INSTITUTION

Pioneer National Bank (PNB) is a community bank headquartered in Yakima, WA. In addition to the main office, the bank has three branches in the Yakima area and one branch in Kennewick, WA. The bank has recently been purchased by InterWest Bancorp Inc., and is currently operating as an independent subsidiary.

The bank serves two primary markets in parts of Yakima and Benton counties. The Yakima market (“Yakima Assessment Area”) comprises the cities of Yakima and Selah, WA, and the Benton market (“Benton Assessment Area”) is comprised primarily of the city of Kennewick, WA. The bank is in sound financial condition and had total assets of \$108 million as of March 31, 1998. Net loans represent approximately 58% of the bank’s assets.

PNB serves a wide array of local lending needs, with a primary focus on small business and residential real estate lending. This lending distribution is reflected by the composition of the bank’s loan portfolio. Commercial and commercial real estate loans represent 77% of average gross loans through March 31, 1998. Residential real estate loans represent 18%, with the remaining 5% in individual and miscellaneous loans. The bulk of residential loan production is sold on the secondary market and not kept in the bank’s loan portfolio.

PNB has achieved a Preferred Lender certification from the Small Business Administration (SBA) and was the second largest lender in terms of number of SBA loans originated through the Spokane District Office in 1997.

The bank received a Satisfactory rating for meeting it’s community’s credit needs at the last OCC examination.

DESCRIPTION OF ASSESSMENT AREA

Yakima Assessment Area

PNB has two assessment areas (AA) in Yakima and Benton counties. The assessment area in Yakima county (Yakima Assessment Area) consists of the north-central portion of the county including the towns of Yakima and Selah. This AA is part of the Yakima Metropolitan Statistical Area (MSA) and represents the bank’s primary trade area. It encompasses the bulk of the population in Yakima county. The remaining census tracts in the county are largely unpopulated rural areas. PNB’s geographic designation for this AA did not contain whole census tracts, which is required by 12 CFR 25.41. We adjusted the designated AA for our analysis to include whole census tracts. This assessment area does not arbitrarily exclude any low or moderate income census tracts.

Based on 1990 Census Data, the Yakima AA contained 16 census tracts and has a population of 86,890. The following table shows the number and percent of census tracts by income level, and the percent of total families residing in those census tracts.

INCOME CHARACTERISTIC OF CENSUS TRACT	# OF TOTAL CENSUS TRACTS	% OF TOTAL CENSUS TRACTS	% OF TOTAL FAMILIES
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Low Income	1	7%	2%
Moderate Income	5	31%	29%
Middle Income	5	31%	28%
Upper Income	5	31%	41%
TOTAL:	16	100%	100%

As evidenced by the data, the majority of the population live in middle and upper income census tracts.

The 1990 median family income for the Yakima MSA is \$27,500 based on U.S. Census Bureau data. The Department of Housing and Urban Development (HUD) has estimated the 1998 median family income for the Yakima MSA at \$36,800. The major employers in the area are Snokist Growers, Yakima School District, Yakima County and Yakima Valley Memorial Hospital. The average sales price of a home in Yakima County as of September 30, 1996 was \$111 thousand according to the Yakima County Development Association.

We reviewed several recent community contacts initiated in the Yakima area by the OCC and other federal financial institution regulators, and contacted a local organization to learn about credit needs within the community. The new contact represents an organization that provides technical and strategic advice to companies looking to expand or relocate to the Yakima area. The primary credit needs noted by these community contacts include low income housing financing and technical assistance, and a continuing need for financing of very small businesses.

Competition is significant with at least nine commercial banks, two thrifts and fifteen mortgage companies.

Benton Assessment Area

The Benton AA consists primarily of the city of Kennewick, WA and is located in Southeastern Washington. The AA is part of the Benton-Franklin MSA. PNB's geographic designation for this AA did not contain whole census tracts, which is required by 12 CFR 25.41. We adjusted the designated AA for our analysis to include whole census tracts. This assessment area does not arbitrarily exclude any low or moderate income census tracts.

Based on 1990 Census Data, the Benton AA contained 13 census tracts and had a population of 65,161. The following table shows the number and percent of census tracts by income level, and the percent of total families residing in those census tracts.

INCOME CHARACTERISTIC OF CENSUS TRACT	# OF TOTAL CENSUS TRACTS	% OF TOTAL CENSUS TRACTS	% OF TOTAL FAMILIES
Moderate Income	3	23%	19%
Middle Income	6	46%	43%
Upper Income	4	31%	38%
TOTAL:	13	100%	100%

There are no low income census tracts in the AA. As evidenced by the data, the majority of the population live in middle and upper income census tracts.

The 1990 median family income for the Benton-Franklin MSA is \$35,700 based on U.S. Census Bureau data. The Department of Housing and Urban Development (HUD) has estimated the 1998 median family income for the Benton-Franklin MSA at \$47,800. Major employment sectors in Benton county include Services (41%), Government (16%), and Retail Trade (15%). The average sales price of a home in the Tri-Cities area was \$117 thousand as of December, 1996 according to the Kennewick Chamber of Commerce. We reviewed recent community contacts initiated by the OCC and other federal financial institution regulators to determine credit needs in the area. These contacts indicate a rising need for rental housing and financing for affordable housing.

Competition is significant, with at least six commercial banks, three thrifts, and nine mortgage companies serving the market.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN TO DEPOSIT RATIO

We analyzed PNB's loan-to-deposit ratio over the last eight quarters from June, 1996 through March, 1998. During these eight quarters, the loan-to-deposit ratio ranged from a low of 64.6% on June 30, 1997 to a high of 73.2% on June 30, 1996, with an average ratio of 73.2%.

We compared PNB's performance under this criteria to other nationally chartered banks in the state of Washington. The sample totaled 13 banks as of March 31, 1998. These banks had an average loan-to-deposit ratio over the same period of 70.1%. Based on this information, PNB's loan-to-deposit ratio is reasonable given the bank's size, its capacity to lend, and the market in which it operates.

PNB also originates and sells a significant volume of residential real estate and SBA guaranteed commercial loans. If these loans had been kept in the bank's loan portfolio, the loan-to-deposit ratio would have been higher.

LENDING IN THE ASSESSMENT AREA

Over the period January 1, 1996 through June 30, 1998, PNB originated 2,016 loans totaling over \$189 million. The majority of these loans were for residential real estate (796 loans totaling \$87.2 million) and commercial loans (570 loans totaling \$69.1 million). The bank records census tract information for commercial and real estate loans. We tested the validity of the census tract data for commercial loans and found an unacceptable error rate of 38%. The high error rate was primarily due to the use of poor quality census tract maps and insufficient staff training. As a result, we selected a sample of loans on which to determine both the level of commercial lending within the assessment area and the geographic distribution.

We also tested the validity of the census tract data collected by the bank for one to four family residential loans. We found this data to be reliable. As a result, we based our conclusions on lending within the assessment area and the geographic distribution of one to four family residential loans on the bank's census tract data. To avoid double counting loans that were originated outside of either assessment area, we combined both AA's for determining the bank's record of lending within its assessment area.

The following table shows the distribution of commercial loans within and outside the combined Yakima and Benton assessment areas based on our total commercial loan sample of 60 loans.

LENDING WITHIN/OUTSIDE COMBINED ASSESSMENT AREAS -

BUSINESS LOAN SAMPLE

	NUMBER OF LOANS	% OF NUMBER OF LOANS	DOLLAR AMOUNT OF LOANS (\$ 000's)	% OF DOLLAR AMOUNT OF LOANS
ORIGINATIONS INSIDE ASSESSMENT AREA	39	65%	4,497	50%
ORIGINATIONS OUTSIDE ASSESSMENT AREA	21	35%	4,491	50%
TOTAL ORIGINATIONS SAMPLED	60	100%	8,988	100%

As evidenced by the data, the majority of the banks commercial loans were originated within its assessment areas, although the dollar amount was equally split within and outside the AA's.

This indicates PNB originated the majority of it's smaller business loans within the assessment area.

LENDING WITHIN/OUTSIDE COMBINED ASSESSMENT AREAS - ONE TO FOUR FAMILY RESIDENTIAL LOANS

	NUMBER OF LOANS	% OF NUMBER OF LOANS	DOLLAR AMOUNT OF LOANS (\$ 000's)	% OF DOLLAR AMOUNT OF LOANS
ORIGINATIONS INSIDE ASSESSMENT AREA	435	59%	47,146	62%
ORIGINATIONS OUTSIDE ASSESSMENT AREA	302	41%	29,335	38%
TOTAL ORIGINATIONS RESIDENTIAL RE LOANS	737	100%	76,481	100%

As evidenced by the data, the majority of the banks one to four family residential loans were originated within its assessment areas.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES

Yakima Assessment Area

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

DISTRIBUTION OF BUSINESS LOANS BY REVENUE SIZE OF BUSINESS

The bank originated 570 business loans over the period January 1, 1996 through June 30, 1998. Of that amount, 111 were originated out of the Kennewick branch, which are analyzed separately in the Benton Assessment

analysis later in this report. Of the remaining 459 business loans originated out of the Yakima branches, we reviewed 50 loans representing almost 11% of total business loan production over the period to estimate the distribution of the bank's business loans among businesses of different sizes.

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

DISTRIBUTION OF BUSINESS LOANS BY REVENUE SIZE OF BUSINESS

GROSS BUSINESS REVENUES (000'S)	# OF BUSINESSES IN ASSESSMENT AREA	% OF BUSINESSES IN ASSESSMENT AREA	# OF LOANS REVIEWED	% OF LOANS REVIEWED
\$0 - \$500	2,610	79%	29	58%
\$501 - \$1,000	305	9%	6	12%
\$1,000 +	381	12%	15	30%
TOTAL:	3,296	100%	50	100%

The data reflects a reasonable distribution of business loans among businesses of different sizes.

A more detailed breakdown of the bank's business lending performance to very small businesses reflects a reasonable dispersion of loans to businesses of different sizes:

DISTRIBUTION OF BUSINESS LOANS BY REVENUE SIZE OF BUSINESS

GROSS BUSINESS REVENUES (000'S)	# OF LOANS REVIEWED	% OF LOANS REVIEWED
\$0 - \$100	10	20%
\$101 - \$250	7	14%
\$251 - \$500	12	24%
\$501 - \$1,000	6	12%
\$1,000 +	15	30%
TOTAL:	50	100%

We also analyzed the bank's one to four family residential loans in the assessment area. This loan category amounted to over 39% of the number of loans over the assessment period, and 46% of the dollar volume of total lending. Our analysis utilized data required to be collected under the Home Mortgage Disclosure Act (HMDA) for home purchase, improvement, and/or refinance of one to four family residential loans.

We analyzed the income distribution of these loans, and the following table shows the distribution of these loans among borrowers of different income levels.

INCOME DISTRIBUTION OF 1 TO 4 FAMILY RESIDENTIAL LOANS

APPLICANT INCOME AS A PERCENT OF MSA MEDIAN	PERCENT OF TOTAL FAMILIES	# OF 1 TO 4 FAMILY RESIDENTIAL LOANS	% OF 1 TO 4 FAMILY RESIDENTIAL LOANS
Low Income	20%	5	2%
Moderate Income	17%	15	5%
Middle Income	20%	71	25%
Upper Income	43%	191	68%
TOTAL:	100%	282	100%

Management indicated that the discrepancy between the income demographics of the community and the bank's one to four family lending patterns is due to a lack of jobs in the community to support mortgage payments for low to moderate income families. This trend is exacerbated by a large number of migrant agricultural workers who do not earn enough from seasonal work to support mortgage payments, but who may be included in the census figures cited above. Management's explanation is supported by data from the Yakima County Development Association, which shows a high unemployment rate in Yakima of 12.5% in 1995, the latest year for which they had complete information.

In an effort to address the credit needs of low income families, the bank joined the State of Washington First Time Homebuyers program in 1996. This program includes bank officers who present training classes to potential buyers, and innovative underwriting criteria for those who apply for a loan after completion of the class. Over the past two years, the bank has presented the course to 191 individuals resulting in four loan originations totaling \$353 thousand. In light of these circumstances, we do not consider the above distribution unreasonable.

Benton Assessment Area

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

As noted above, the bank originated 570 business loans over the period January 1, 1996 through June 30, 1998. Of that amount, 111 were originated out of the Kennewick branch, which are analyzed in this section of the report. We reviewed 14 loans representing almost 13% of total business loan production over the period to estimate the distribution of the bank's business loans among businesses of different sizes.

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

DISTRIBUTION OF BUSINESS LOANS BY REVENUE SIZE OF BUSINESS

GROSS BUSINESS REVENUES (000'S)	# OF BUSINESSES IN ASSESSMENT AREA	% OF BUSINESSES IN ASSESSMENT AREA	# OF LOANS REVIEWED	% OF LOANS REVIEWED
\$0 - \$500	1,819	84%	7	50%
\$501 - \$1,000	202	9%	2	14%
\$1,000 +	160	7%	5	36%
TOTAL:	2,181	100%	14	100%

Management indicated that the primary reason loans to businesses with revenues less than \$500 thousand did not match up to the business demographics of the assessment area is that many of these businesses do not qualify for bank loans due to insufficient equity or no income. President Campbell pointed to the bank's SBA lending and participation in the Washington Association of Minority Entrepreneurs (WAME) program for low and moderate income borrowers as evidence of efforts to serve these small businesses.

President Campbell also noted that the bank participates in the Federal Home Loan Bank of Seattle's Community Investment Program (CIP) which is designed to benefit low and moderate income families through housing, employment or service. As such, the data reflects a reasonable distribution of business loans among businesses of different sizes.

A more detailed breakdown of the bank's business lending performance to very small businesses reflects a reasonable dispersion of loans to businesses of different sizes:

DISTRIBUTION OF BUSINESS LOANS BY REVENUE SIZE OF BUSINESS

GROSS BUSINESS REVENUES (000'S)	# OF LOANS REVIEWED	% OF LOANS REVIEWED
\$0 - \$100	3	21%
\$101 - \$250	4	29%
\$251 - \$500	0	0%
\$501 - \$1,000	2	14%
\$1,000 +	5	36%
TOTAL:	14	100%

We also analyzed the bank's one to four family residential loans in the assessment area. As noted above, this lending category amounted to over 39% of the number of loans over the assessment period, and 46% of the dollar volume of total lending. Our analysis utilized data required to be collected under the Home Mortgage Disclosure Act (HMDA) for home purchase, improvement, and/or refinance of one to four family residential loans. We analyzed the income distribution of these loans, and the following table shows the distribution of these loans among borrowers of different income levels.

INCOME DISTRIBUTION OF 1 TO 4 FAMILY RESIDENTIAL LOANS

APPLICANT INCOME AS A PERCENT OF MSA MEDIAN	PERCENT OF TOTAL FAMILIES	# OF 1 TO 4 FAMILY RESIDENTIAL LOANS	% OF 1 TO 4 FAMILY RESIDENTIAL LOANS
Low Income	19%	1	1%
Moderate Income	15%	24	16%
Middle Income	25%	44	29%
Upper Income	41%	82	54%
TOTAL:	100%	151	100%

While the data shows a good penetration of moderate income families, lending volumes to low income families are low. Management stated that problems similar to those experienced in the Yakima AA exist with respect to employment opportunities for unskilled labor in the Benton AA. These problems make lending to these individuals difficult. The unemployment rate in the Tri-Cities region (Kennewick, Pasco and Richland, WA) was 7.4% in 1997 according to the Tri-City Industrial Development Council. This is high when compared to the Washington state average unemployment rate of 4.5% in 1997.

First Time Homebuyers seminars have been conducted, but the bank experienced poor turnout on all occasions. Based on management's explanation, we do not consider the above distribution unreasonable.

GEOGRAPHIC DISTRIBUTION OF LOANS

Yakima Assessment Area

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 business 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.

Note that only 33 of the original sample of 50 business loans were originated within the Yakima AA, and these loans are analyzed in the table below.

GEOGRAPHIC DISTRIBUTION OF BUSINESS LOAN ORIGINATIONS

INCOME CHARACTERISTIC OF TRACT	% OF TOTAL CENSUS TRACTS	# OF TOTAL BUSINESS LOANS	% OF TOTAL LOANS
Low Income	7%	4	12%
Moderate Income	31%	1	3%
Middle Income	31%	21	64%
Upper Income	31%	7	21%
TOTAL:	100%	33	100%

As discussed above under the table "Distribution of Business Loans by Revenue Size of Business," management

feels there is a high level of “bootstrap” businesses in the AA that have little or no equity and no identifiable source of repayment for loans. This would tend to restrict the number of loans to low and moderate income geographies. However, the data does indicate very good penetration to low income census tracts.

We also analyzed the banks one to four family residential loans. We used the HMDA data collected by the bank during the period January 1, 1996 through June 30, 1998 to estimate the distribution of these loans among census tracts of various income levels. The following table compares the geographic distribution of residential loans to the income distribution of census tracts.

GEOGRAPHIC DISTRIBUTION OF 1 TO 4 FAMILY RESIDENTIAL LOANS

INCOME CHARACTERISTIC OF CENSUS TRACT	% OF TOTAL TRACTS	# OF 1 TO 4 FAMILY RESIDENTIAL LOANS	% OF 1 TO 4 FAMILY RESIDENTIAL LOANS
Low Income	7%	1	<1%
Moderate Income	31%	35	12%
Middle Income	31%	74	26%
Upper Income	31%	174	61%
TOTAL:	100%	284	100%

Management attributed the modest penetration in low and moderate income census tracts to a shortage of adequate housing stock, and a higher level of rental, rather than owner occupied households. This would result in fewer mortgage opportunities available to the bank. This explanation is supported by 1990 U.S. Census data which shows that while only 31% of total families in the AA live in low and moderate income census tracts, 48% of the households in the low and moderate income census tracts are rentals. Consequently, we do not consider the above distribution unreasonable.

Benton Assessment Area

We were unable to perform a geographic distribution of business loans in the Benton AA for several reasons. Of the original sample of 14 business loans, census tract data could not be located for four of them, leaving only ten loans to analyze. Of the ten loans with census tract data, only six were originated within the Benton AA. This is not a large enough sample to produce a meaningful analysis. In addition, there are no low income census tracts in the Benton AA, which further reduces the need for this type of analysis.

However, we were able to analyze the banks one to four family residential loans in the Benton AA. We used the HMDA data collected by the bank during the period January 1, 1996 through June 30, 1998 to estimate the distribution of these loans among census tracts of various income levels. The following table compares the geographic distribution of residential loans to the income distribution of census tracts within the Benton AA.

GEOGRAPHIC DISTRIBUTION OF 1 TO 4 FAMILY RESIDENTIAL LOANS

INCOME CHARACTERISTIC OF CENSUS TRACT	% OF TOTAL TRACTS	# OF 1 TO 4 FAMILY RESIDENTIAL LOANS	% OF 1 TO 4 FAMILY RESIDENTIAL LOANS
Moderate Income	23%	12	8%
Middle Income	46%	34	22%
Upper Income	31%	105	70%
TOTAL:	100%	151	100%

There are no low income census tracts in the Benton AA. As evidenced by the data above, 23% of the census tracts are moderate income tracts. However, less than 19% of the families in the AA live in these tracts, and 30% of the total rental housing in the AA is found in these tracts, further limiting mortgage opportunities. As a result, we conclude that the data above represents a reasonable dispersion of one to four family loans in the assessment area.

RESPONSE TO COMPLAINTS

Since our last examination PNB has not received any consumer complaints 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.