



Comptroller of the Currency
Administrator of National Banks

Small
Bank

PUBLIC DISCLOSURE

August 3, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Kittitas Valley Bank
Charter Number 18790**

Ellensburg, WA 98926

**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 Community Reinvestment Act (CRA) performance of **Kittitas Valley Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of August 3, 1998. 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**”.

Kittitas Valley Bank has reasonable loan-to-deposit ratio given the bank’s size, its capacity to lend, and the market in which it operates. Virtually all of the bank’s loans are in its assessment area and reflect both a reasonable geographic distribution and reasonable dispersion among businesses and farms of different sizes.

DESCRIPTION OF INSTITUTION

Kittitas Valley Bank, N. A. (KVB) is a community bank located in the city of Ellensburg in Kittitas County. In addition to the main office in Ellensburg, the bank has two other branches in the county in the towns of Cle Elum and Roslyn. The bank is in sound financial condition and had total assets as of June 30, 1998 of \$47 million.

KVB offers a wide array of credit products suitable to the needs of the population of its assessment area. The bank focuses its lending activities on commercial and farm loans which comprise 69.31% of the loan portfolio as of June 30, 1998. The bank also originates consumer installment and residential real estate loans which comprise 21.65% of the loan portfolio.

The bank has recently been purchased by InterWest Bancorp Inc., and is currently operating as an independent subsidiary.

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

DESCRIPTION OF ASSESSMENT AREA

Kittitas County is a rural area of central Washington and is located east of the Cascade Mountains and the city of Seattle. The county is not located within a metropolitan statistical area. Kittitas County has a population of 26, 725 which includes about 8,000 students that attend Central Washington University. This assessment area does not arbitrarily exclude any low or moderate income census tracts.

Based on 1990 Census Data, the Kittitas County AA contained seven census tracts. 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
Low Income	0	0%	0%

Moderate Income	1	14%	8%
Middle Income	6	86%	92%
Upper Income	0	0%	0%
TOTAL:	7	100%	100%

The 1990 median family income for rural Washington State is \$29,672 based on U.S. Census Bureau data. The Department of Housing and Urban Development (HUD) has estimated the 1998 median family income for rural Washington State to be at \$37,300. The July 1998 unemployment statistics for counties in the state of Washington indicate that the unemployment rate for Kittitas County is 4.7% compared to the state rate of 4.4%. The major employer in the area is Central Washington University. The economy is based on agriculture and livestock.

We contacted a local organization to learn about credit needs within the business and agricultural community. The primary credit needs noted by the community contact were for outreach and technical assistance by the banks to prospective yet inexperienced borrowers and credit products that meet the needs of very small businesses and farms.

Competition is significant with six commercial banks or savings and loan associations, one credit union and five mortgage companies. Three of the commercial banks are large regional institutions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN TO DEPOSIT RATIO

We analyzed KVB'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 68.2% on March 31, 1997 to a high of 76.18% on June 30, 1996, with an average ratio of 73%.

We compared KVB's performance under this criteria to other nationally chartered banks in the state of Washington. The sample totaled 10 banks as of March 31, 1998. These banks had an average loan-to-deposit ratio over the same period of 64.7%. The median average loan-to-deposit ratio for this group of banks was about 75%. Based on this information, KVB'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

Over the period January 1, 1995 through April 30, 1998, KVB originated 527 loans totaling over \$40 million. The majority of these loans were for agricultural (116 loans) and commercial (223 loans). After verification, we used the bank's analysis to determine the number of loans made within and outside the

assessment area. We selected a sample of loans on which to determine both the level of commercial lending within the assessment area and the geographic distribution.

The following table shows the distribution of commercial and agricultural loans within and outside the Kittitas County assessment areas. Data was not available on the dollar volume of loans although average loan size was calculated to be \$78,584

	NUMBER OF LOANS	% OF NUMBER OF LOANS
ORIGINATIONS INSIDE ASSESSMENT AREA	314	93%
ORIGINATIONS OUTSIDE ASSESSMENT AREA	25	7%
TOTAL ORIGINATIONS BUSINESS AND FARM LOANS	339	100%

As evidenced by the data, the a substantial majority of the bank’s commercial and agricultural loans were originated within its assessment areas.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES

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

DISTRIBUTION OF BUSINESS LOANS BY REVENUE SIZE OF BUSINESS

The bank originated 339 commercial and agricultural loans over the period January 1, 1995 through April 30, 1998. We reviewed 40 loans representing almost 12% of total commercial and agricultural 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	1017	87%	25	62.5%
\$501 - \$1,000	77	6.6%	8	20%
\$1,000 +	74	6.4%	7	17.5%
TOTAL:	1,168	100%	40	100%

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

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 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.

GEOGRAPHIC DISTRIBUTION OF BUSINESS LOAN ORIGINATIONS

INCOME CHARACTERISTIC OF TRACT	% OF TOTAL CENSUS TRACTS	# OF TOTAL AREA BUSINESS	% OF TOTAL AREA BUSINESS	# OF TOTAL BUSINESS LOANS	% OF TOTAL LOANS
Low Income	0%	0	0%	0	0%
Moderate Income	14%	397	29%	12	30%
Middle Income	86%	972	71%	28	70%
Upper Income	0%	0	0%	0	0%

TOTAL:	100%	1,369	100%	40	100%
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As evidenced by the chart above the distribution of loans among the census tracts where the businesses in the community are located is reasonable. The loans also showed a reasonable penetration throughout all the census tracts in the assessment area.

RESPONSE TO COMPLAINTS

Since our last examination KVB 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.