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Comptroller of the Currency  
Administrator of National Banks

Small  
Bank

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## **PUBLIC DISCLOSURE**

**August 27, 1998**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Northstar Bank  
Charter Number 22662**

**5602 15th Ave N.W.  
Seattle, WA 98107**

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

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| <p><b>NOTE:</b> 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> |
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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 Community Reinvestment Act (CRA) performance of **Fremont First National Bank dba Northstar Bank**, prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of August 27, 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**

Fremont First National Bank, dba Northstar Bank (NSB) demonstrates a reasonable loan-to-deposit ratio given the bank's size, its capacity to lend, and the market in which it operates. A substantial 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. The bank's lending to businesses of different sizes and geographic distribution of loans is reasonable considering the bank's limited resources and narrow business focus. NSB has received no written complaints with respect to the CRA since the prior OCC examination.

## **DESCRIPTION OF INSTITUTION**

Northstar Bank (NSB) is a community bank located in Seattle, Washington. The bank has offices in the Ballard and Fremont districts of Seattle. The bank is owned by approximately 233 shareholders. NSB is in sound financial condition and has total assets of \$37 million as of June 30, 1998. Gross loans are 73% of the bank's assets.

NSB's primary focus is lending to small businesses. The loan portfolio consists of 60% business loans, 36% real estate loans and 4% consumer loans. The bank's residential real estate portfolio consists mainly of 1-4 family residential loans which are primarily houseboat loans. Due to its size, the bank does not have the capacity or expertise necessary to originate significant volumes of residential loans. Customers who inquire about conventional mortgage loans are referred to a local mortgage company. The bank has identified the need for 1-4 family floating houseboat loans. This is a segment of the real estate market that the bank has filled by developing a lending program to meet this need. For this examination, we evaluated CRA performance on commercial lending and Home Mortgage Disclosure Act (HMDA) reportable loans.

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

## **DESCRIPTION OF ASSESSMENT AREA**

The assessment area meets the requirements of the CRA regulation and does not arbitrarily exclude low or moderate income census tracts. NSB's assessment area consists of the city of Seattle. Based on 1990 Census Data, the bank's assessment area contains 123 census tracts and has a population of 516,383.

The following table shows the distribution of census tracts, small businesses, and families within the assessment area.

| <b>INCOME CHARACTERISTIC OF CENSUS TRACTS</b> | <b># AND % OF CENSUS TRACTS</b> |      | <b># AND % OF BUSINESSES</b> |      | <b>% OF FAMILIES</b> |
|---|---------------------------------|------|------------------------------|------|----------------------|
| Low Income                                    | 9                               | 7%   | 2,444                        | 7%   | 4%                   |
| Moderate Income                               | 29                              | 24%  | 8,654                        | 27%  | 23%                  |
| Middle Income                                 | 65                              | 53%  | 13,359                       | 41%  | 56%                  |
| Upper Income                                  | 20                              | 16%  | 8,065                        | 25%  | 17%                  |
| <b>TOTAL:</b>                                 | 123                             | 100% | 32,522                       | 100% | 100%                 |

The 1990 median family income for the Seattle Metropolitan Statistical Area (MSA) is \$43,103 based on U.S. Census Bureau data. The Department of Housing and Urban Development (HUD) has estimated the 1998 median family income for the Seattle MSA at \$59,000. The major employer in the area is the Boeing Company, and the business activity of Boeing significantly affects the economy of Puget Sound. Boeing continues to be the largest exporter of goods in the United States. International trade, technology, and tourism continue to be strong areas of the economy. Based on information published by the Seattle Times in January, 1998, the median home price for a 3 bedroom house in Seattle was \$191,200.

Competition is significant with at least 25 commercial banks, 10 thrifts and well over 100 mortgage companies serving the same market area. The banks include several community banks, and numerous branches of regional and multinational banks.

We conducted two community contacts 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. The community contacts represented a business group and a local government office. The primary credit needs noted by these organizations were small business loans and affordable housing, which is indicative of a tight real estate market. Both contacts indicated that local credit needs were being met by the local institutions.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

**LOAN TO DEPOSIT RATIO**

NSB’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 NSB's loan-to-deposit ratio over the period September 30, 1996 through June 30, 1998. During these eight quarters, the bank's loan-to-deposit ratio ranged from a high of 89.2% at June 30, 1997 to a low of 68.6% at June 30, 1996 with an average ratio of 83.5%.

We compared NSB's performance under this criterion to six banks with total assets between \$18 million and \$84 million in the Seattle metropolitan area. These banks had an average loan-to-deposit ratio over the same period of 71%.

## **LENDING IN THE ASSESSMENT AREA**

Our review encompassed the bank's small business and residential lending over the period January 1, 1997 through August 18, 1998. Over that period, a substantial majority of NSB's loans were made within its assessment area.

Based on bank data, 260 loans of all types were originated over the period. We sampled a portion of commercial and residential loans to determine the validity of the geographic data collected by the bank. We found an error rate of 16% for each product type due to incomplete or incorrect data. As such, we based our analysis on a sample of 73 loans. Based on this sample, 92% of loans by number and 85% by dollar volume were originated within the assessment area.

The following tables show the number and dollar amount of NSB's loans originated within and outside it's assessment area over the review period.

| <b>GEOGRAPHIC LOCATION OF LOANS</b> | <b># OF TOTAL LOANS</b> | <b>% OF TOTAL LOANS</b> | <b>\$ OF TOTAL LOANS (000's)</b> | <b>% of \$ VOLUME OF TOTAL LOANS</b> |
|-------------------------------------|-------------------------|-------------------------|----------------------------------|--------------------------------------|
| Inside A. A.                        | 67                      | 92%                     | \$8,519                          | 85%                                  |
| Outside A. A.                       | 6                       | 8%                      | \$1,498                          | 15%                                  |
| <b>TOTAL:</b>                       | 73                      | 100%                    | \$10,017                         | 100%                                 |

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

The lending distribution in the assessment area is reasonable. The bank originated 140 business loans from January 1, 1997 through August 18, 1998. We analyzed a sample of

these loans to estimate the distribution of the bank’s business loans among borrowers of different sizes. Our sample consisted of 29 loans, representing 21% of business loan originations. The following table shows the distribution of the business loans we reviewed by revenue size.

**DISTRIBUTION OF BUSINESS LOANS BY REVENUE SIZE OF BUSINESS**

| <b>GROSS BUSINESS REVENUES (000'S)</b> | <b># OF BUSINESSES IN ASSESSMENT AREA</b> | <b>% OF BUSINESSES IN ASSESSMENT AREA</b> | <b># OF LOANS REVIEWED</b> | <b>% OF LOANS REVIEWED</b> |
|--|---|---|----------------------------|----------------------------|
| \$0 - \$500                            | 22,038                                    | 79%                                       | 14                         | 48%                        |
| \$501 - \$1,000                        | 2,434                                     | 8%  | 3                          | 10%                        |
| \$1,000 +                              | 3,509                                     | 13%                                       | 12                         | 42%                        |
| <b>TOTAL:</b>                          | 27,981                                    | 100%                                      | 29                         | 100%                       |

A more detailed breakdown of the bank’s business lending performance to very small businesses is shown in the table below.

**DISTRIBUTION OF BUSINESS LOANS BY REVENUE SIZE OF BUSINESS**

| <b>GROSS BUSINESS REVENUE (000'S)</b> | <b># OF LOANS</b> | <b>% OF LOANS</b> |
|---------------------------------------|-------------------|-------------------|
| \$0 - \$100,000                       | 7                 | 24%               |
| \$100,001 - \$250,000                 | 2                 | 7%                |
| \$250,001 - \$500,000                 | 5                 | 17%               |
| \$500,001 - \$1,000,000               | 3                 | 10%               |
| \$1,000,001 +                         | 12                | 42%               |
| <b>TOTAL:</b>                         | 29                | 100%              |

Fifty-eight percent of the business loans in our sample were to borrowers with revenues less than \$1 million, while 87% of the businesses in the bank’s assessment area had revenues less than \$1 million. NSB’s lending pattern does not reflect the business demographics due to several factors. According to Vice President and Senior Loan Officer Jack Myles, many of the small business owners use personal credit cards and home equity lines of credit to meet the businesses credit needs. Also, two of the largest U.S. Small Business Administration (SBA) lenders in the state have market areas that are

in the bank's assessment area. Myles pointed out that the bank does offer SBA loans but does not have the systems or personnel to do large volumes of this type of lending. VP Myles also stated that the bank does not intentionally target business with revenues of \$1 million or greater. For example, during the first half of 1998, NSB conducted a mass mailing to 600 businesses in its assessment area with the intention of developing a banking relationship with businesses regardless of size. The parameters for mailing were *all* businesses located in the Ballard, Fremont, Queen Anne, Crown Hill and Green Lake neighborhoods. Based on these mitigating factors, lending to businesses of different sizes is considered reasonable.

We also analyzed the income distribution of NSB's 1 to 4 family residential loans in the assessment area. Our sample consisted of all 1998 HMDA reportable loans and a sample of 21 residential loans made in 1997. Our 1997 sample represented approximately 53% of the 1997 1 to 4 family residential originations. Two loans on the HMDA report did not have income information and two were not in the assessment area. Thus, 40 loans were analyzed for income distribution. The analysis is summarized in the table below.

**1997 AND 1998 BORROWER DISTRIBUTION BY INCOME LEVEL -  
RESIDENTIAL REAL ESTATE**

| 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                                  | 22%                 | 3                                    | 8%                                   |
| Moderate Income                             | 20%                 | 6                                    | 15%                                  |
| Middle Income                               | 24%                 | 8                                    | 20%                                  |
| Upper Income                                | 34%                 | 23                                   | 57%                                  |
| <b>TOTAL:</b>                               | 100%                | 40                                   | 100%                                 |

This segment of the portfolio consists primarily of floating houseboat loans (rather than conventional 1-to-4 family real estate loans), and the distribution pattern of these loans is indicative of the floating houseboat market served. This type of loan is unique in nature, and carries with it certain risks not inherent in a conventional real estate loan.

Consequently, the bank requires a 20% down payment from the borrower. Given this requirement, and the cost of purchasing and maintaining a houseboat, more of these borrowers tend to be upper income individuals. In light of these circumstances, we do not consider the above distribution to be unreasonable

## **GEOGRAPHIC DISTRIBUTION OF LOANS**

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.

Twenty-five of the original sample of 29 business loans were originated within the bank's assessment area, and these loans are analyzed in the table below.

### **GEOGRAPHIC DISTRIBUTION OF BUSINESS LOANS**

| <b>INCOME CHARACTERISTIC OF CENSUS TRACTS</b> | <b>% OF TOTAL CENSUS TRACTS</b> | <b># OF BUSINESS LOANS</b> | <b>% OF TOTAL LOANS</b> |
|---|---------------------------------|----------------------------|-------------------------|
| Low Income                                    | 7%                              | 0                          | 0%                      |
| Moderate Income                               | 24%                             | 7                          | 28%                     |
| Middle Income                                 | 53%                             | 15                         | 60%                     |
| Upper Income                                  | 16%                             | 3                          | 12%                     |
| <b>TOTAL:</b>                                 | 100%                            | 25                         | 100%                    |

Overall, the distribution of the loans reflect reasonable dispersion throughout NSB's assessment area. Although none of the sampled loans were in low income census tracts, loans made to low and moderate income census tracts are proportionate to the census tract demographics. As noted above, VP Myles believes that many of the businesses in the low income census tracts tend to be very small businesses that with proprietors who use credit cards and home equity loans to meet their operating needs. Also, businesses in the low income census tracts are closer to several other financial institutions than they are to NSB.

We analyzed the bank's 1998 HMDA data and a sample of 19 residential real estate loans made in 1997 to estimate the distribution of these loans among census tracts of various income levels. This segment is made up primarily of floating houseboat loans.

The following table compares the geographic distribution of residential loans to the income distribution of census tracts within NSB's assessment area.

## **GEOGRAPHIC DISTRIBUTION OF 1 TO 4 FAMILY RESIDENTIAL LOANS**

| <b>INCOME CHARACTERISTIC OF CENSUS TRACT</b> | <b>% OF TOTAL TRACTS</b> | <b># OF 1 TO 4 FAMILY RESIDENTIAL LOANS</b> | <b>% OF 1 TO 4 FAMILY RESIDENTIAL LOANS</b> |
|--|--------------------------|---|---|
| Low Income                                   | 7%                       | 1   | 2%  |
| Moderate Income                              | 24%                      | 5   | 12%   |
| Middle Income                                | 53%                      | 11  | 26%   |
| Upper Income                                 | 16%                      | 25  | 60%   |
| <b>TOTAL:</b>                                | 100%                     | 42  | 100%  |

The distribution pattern of the bank's 1 to 4 family loans is indicative of the floating houseboat market. Moorage space for floating houseboats is typically found in upper income census tracts. Therefore, the majority of NSB's 1 to 4 family residential loans will be located in the middle and upper income census tracts.

NSB does not have the personnel nor the capacity to originate large volumes of conventional mortgage loans, and the market for mortgage loans is well served by numerous other financial institutions and mortgage companies. As a result, we conclude that the data represents a reasonable dispersion of 1 to 4 family mortgage loans in the assessment area.

### **RESPONSE TO COMPLAINTS**

NSB 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.