



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**July 29, 2013**

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

**Prime Pacific Bank, National Association  
Charter Number: 22769**

**2502 196<sup>th</sup> Street Southwest  
Lynnwood, WA 98036**

**Office of the Comptroller of the Currency  
Seattle Field Office  
101 Stewart Street, Suite 1010  
Seattle, WA 98101**

**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.**

Prime Pacific Bank, National Association has an overall Satisfactory record of meeting community credit needs. This is based on the following:

- The Bank has a reasonable loan-to-deposit (LTD) ~~ratio which~~ratio, which averaged 81.99% during the evaluation period.
- The distribution of loans reflects a reasonable penetration among businesses of different sizes given the bank's product offerings and local economic conditions.
- The bank's geographic distribution of business loans reflects a more than reasonable dispersion throughout the assessment area (AA).
- There were no public complaints about the bank's CRA performance.

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

### **Scope of Examination**

This Performance Evaluation covers the period from July 24, 2007 through July 29, 2013 and was evaluated using 2000 and 2010 U.S. Census demographic information. There had been no data integrity review conducted prior to this evaluation. We performed a full-scope review, and analyzed bank data for loans originated between January 1, 2011 and June 30, 2013 for this review's lending test. We determined that business loans are the Bank's primary loan product because these account for a majority of loans originated during this period. We evaluated business loans originated in 2011 using 2000 U.S. Census demographic information, and business loans originated in 2012 through June 30, 2013 using 2010 U.S. Census demographic information.

### **Description of Institution**

Prime Pacific Bank, N.A. (PPB, Prime Pacific, the Bank) is a community bank headquartered in Lynnwood, Washington. The Bank has three branches located in Kenmore, WA, Lynnwood, WA, and Mill Creek, WA. Prime Pacific opened the branches located in Lynnwood and Mill Creek since our last review was performed in 2007. All branches are located within a few miles of the bank. PPB also has a branch charter to operate a courier service to accept deposits within the state of Washington. Prime Pacific Financial Services, Inc. became the holding company for the bank in January 2001, and is the sole owner of the bank. As of June 30, 2013, PPB reported total assets of \$124MM, and total loans of \$89MM (72% of total assets).

Prime Pacific is a full-service bank offering loans, deposit accounts, and traditional banking services. Prime Pacific has a Depository to accept deposits, and an Automated Teller Machine (ATM) outside the front entrance door to the bank, both of which are

accessible 24 hours a day. Prime Pacific's primary focus is business lending, which comprises a majority of the bank's lending activity. PPB also offers home mortgage loan products and some consumer loans.

Table 1 shows the composition of loans originated from January 1, 2011 through June 30, 2013, both by number and dollar volume. Based on the Bank's originations, we determined the bank's primary loan product to be business loans. We analyzed a random selection of these loans for this performance evaluation.

**Table 1**

<b>PRIME PACIFIC BANK COMPOSITION OF LOANS ORIGINATED FROM 2011 TO JUNE 30, 2013</b>				
<b>Loan Type</b>	<b># of Loans</b>	<b>% by Number of Loans Originated/Purchased during the Evaluation Period</b>	<b>\$ Volume (000)</b>	<b>% by Dollar of Loans Originated/Purchased during the Evaluation Period</b>
Agriculture	0	0%	\$0	0%
Business Loans	151	68%	\$97,320	85%
1-4 Family Residential	47	21%	\$16,544	14%
Consumer	25	11%	\$1,277	1%
<b>Total:</b>	<b>223</b>	<b>100%</b>	<b>\$115,141</b>	<b>100%</b>

Source: Bank's data

There are no specific legal or financial circumstances impeding the Bank's ability to help meet the credit needs of the community; however, the Bank has been under regulatory orders since late 2009 that affect the Bank's focus for generating loan business and limits the Bank's concentrations of loans. The OCC previously evaluated the Bank's CRA performance on July 23, 2007, and found it to be satisfactory.

## **Description of Prime Pacific Bank's Assessment Area**

An AA is a geographic area wherein CRA performance is measured. A bank's AA must include the bank's branch offices and/or deposit-taking automated teller machines (ATMs) and surrounding geographies, census tracts (CTs), in which the bank has originated or purchased a substantial portion of its loans. In addition, the AA boundaries must follow contiguous political subdivisions, such as counties, cities, or towns.

Prime Pacific has defined its AA as all of Snohomish County and a portion of north King County. For calendar year 2011, based on the 2000 U.S. Census, this AA included 173 census tracts. Due to changes in the 2010 U.S. Census, the Bank's AA for calendar years 2012 and 2013 consists of 191 census tracts. This AA is inside the Seattle-Bellevue-Everett Metropolitan Division (MD), which comprises part of the larger Seattle-Tacoma-Everett Metropolitan Statistical Area (MSA).

The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. North King County and southwest Snohomish County are primarily urban areas and are supported by small businesses. The remainder of Snohomish County is largely rural.

The following table highlights the demographic composition of the AA based on the 2000 U.S. Census.

**Table 2A (2000 U.S. Census)**

PRIME PACIFIC BANK'S ASSESSMENT AREA COMPOSITION INCOME CHARACTERISTICS OF CTs, BUSINESSES AND FAMILIES						
CT Income Characteristic	# and % of CTs		# and % of Businesses		# and % of Families	
Low Income	2	1.16%	916	1.11%	1,686	0.81%
Moderate Income	31	17.92%	15,288	18.46%	37,687	18.19%
Middle Income	107	61.85%	51,111	61.70%	126,082	60.86%
Upper Income	33	19.08%	15,521	18.74%	41,715	20.14%
Total	173	100.00%	82,836	100.00%	207,170	100.00%

Source: 2000 U.S. Census and 2011 Business Geodemographic Data (Dun and Bradstreet)

According to the 2000 U.S. Census, the bank's AA had a population of 788,739, and the weighted average of median housing in the AA was \$200,299. The weighted average HUD [2011] updated MSA median family income was \$86,800. Dun and Bradstreet 2011 Business Geodemographic Data shows that 82,836 businesses are within the Bank's AA, of which 72% are small businesses. Low- and moderate-income (LMI) census tracts represent 19% of all census tracts in the Bank's AA, and 19% of all families live within LMI census tracts.

The following table highlights the demographic composition of the AA based on the 2010 U.S. Census.

**Table 2B (2010 U.S. Census)**

PRIME PACIFIC BANK'S ASSESSMENT AREA COMPOSITION INCOME CHARACTERISTICS OF CTs, BUSINESSES AND FAMILIES						
CT Income Characteristic	# and % of CTs		# and % of Businesses		# and % of Families	
Low Income	5	2.62%	2,457	2.96%	6,189	2.70%
Moderate Income	42	21.99%	17,786	21.42%	45,600	19.91%
Middle Income	97	50.79%	43,227	52.05%	121,293	52.97%
Upper Income	45	23.56%	19,574	23.57%	55,912	24.42%
NA	2	1.05%	0	0.00%	0	0.00%
Total	191	100.00%	83,044	100.00%	228,994	100.00%

Source: 2010 U.S. Census and 2012 Business Geodemographic Data (Dun and Bradstreet)

According to the 2010 U.S. Census, the Bank's AA population was 902,857, an increase of 14% since the 2000 U.S. Census. The weighted average of median housing in the AA rose 76% to \$353,022 since the 2000 U.S. Census. The weighted average HUD [2012] updated MSA median family income was \$88,000. Dun and Bradstreet 2012 Business Geodemographic Data indicates the number of businesses within the Bank's AA increased to 83,044, of which 74.27% are small businesses. The

2010 U.S. Census shows that low- and moderate-income census tracts represent 24.61% of all census tracts in the Bank's AA, and that 22.61% of all families live within LMI census tracts.

According to Moody's Analytics, the six largest employment sectors in the Seattle MSA employ 72.1% of all employees: Professional and Business Services (14.9%), Government (14.0%), Education and Health Services (12.0%), Manufacturing (11.6%), Retail Trade (10.1%), and Leisure and Hospitality Services (9.5%). The Aerospace Product and Parts Manufacturing industry is a leader in the Manufacturing sector. According to the U.S. Bureau of Labor Statistics, the unemployment rate for the Seattle-Bellevue-Everett Metropolitan Division has increased from 3.6% in July 2007 (the date of the previous CRA examination) to 4.8% in July 2013.

The Seattle-Bellevue-Everett MD economy is benefitting from growth in manufacturing and residential construction. Increased commercial aircraft manufacturing has led industrial production above pre-recession levels. Growth in private employment in the area has been higher than the state and national averages over the previous six month period. Overall, gains in manufacturing and construction are projected to facilitate a recovery in the area. Backlogs in commercial aircraft production and pent-up demand for homes indicate probable growth in the next few years. Multifamily homebuilding is at high levels, but demand currently exceeds supply, causing rents to rise. Single-family home sales have been increasing faster in the area than nationwide, but prices for existing homes, as well as new-home construction activity, are expected to increase more slowly this year than the past. Both a growing inventory of foreclosures and a large number of past-due mortgages currently exist.

Competition from other financial institutions is strong. According to the FDIC-Insured Institutions Deposit Market Share Report, there are 59 commercial and savings banks, with 739 branch offices, in the Seattle-Bellevue-Everett MD market area. Prime Pacific ranks 35<sup>th</sup> in deposit market share, with 0.18 percent. The five largest banks hold over 71 percent of the deposit market share. The major competing institutions include Bank of America, N.A., Wells Fargo Bank, N.A., U.S. Bank, N.A., JP Morgan Chase Bank, N.A., and KeyBank, N.A.; N.A.

In conjunction with this CRA examination, we conducted a community contact interview to learn about opportunities within the community, and how well financial institutions address the credit and service needs of the community. The contact was a community-based development corporation. The contact indicated that one of the largest banking and credit needs was financial education for the area's lower-income residents so that they would participate more in the banking system rather than rely on high-cost sources of short-term credit.

***Please refer to the bank's CRA public file for more information about the institution.***

## Conclusions with Respect to Performance Tests

### LENDING TEST

Based on a full scope review, the bank's lending performance in the AA is overall satisfactory. Conclusions to support this rating are based on the following:

#### Loan-to-Deposit Ratio

The Bank's loan-to-deposit ("LTD") ratio demonstrates a willingness to lend. The level of lending is reasonable given the Bank's size and deposit market share, area credit needs, and the area's highly-competitive banking market. We analyzed the Bank's quarterly LTD ratio from March 31, 2007 through March 31, 2013. During this period, the bank's LTD ratio ranged from a low of 69.27% to a high of 95.33%, with a quarterly average of 81.99%. The Bank's LTD ratio was compared with three similarly situated peer institutions. The average LTD ratio for the peer institutions for the same time period was 90.12%, including a high quarterly average LTD ratio of 93.49%, and a low quarterly average LTD ratio of 87.00%. For the quarter ending March 31, 2013, Prime Pacific's LTD ratio exceeded that of two of those peer institutions.

The Bank's average LTD ratio is reasonable and meets the standards for satisfactory performance.

#### Lending in the AA

The bank's record of lending in the AA does not meet the standard for satisfactory performance.

**Table 3**

Lending in Snohomish County and Northern King County, WA										
Loan Type	Number of Loans					Dollars of Loans (\$000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business Loans	29	48%	31	52%	60	\$10,665	25%	\$32,223	75%	\$42,888
Totals	29	48%	31	52%	60	\$10,665	25%	\$32,223	75%	\$42,888

Source: Sample of business loans originated during calendar years 2011 and 2012, and YTD June 30, 2013.

Based on the sample of business loans reviewed, a majority of business loans are originated outside of the bank's AA. 48% of the loans reviewed that were originated between January 1, 2011 and June 30, 2013 were made within the bank's AA. The dollar amount of those loans made within the AA represent 25% of the total dollar amount of loans originated during this period.

These ratios are primarily attributable to the bank's lending strategy, which focuses on the origination of loans guaranteed by the Small Business Administration (SBA), and the sale of much of these loans on the secondary market. The bank also participates with other institutions to originate some large business loans. All SBA loans and participation loans reviewed were located outside of the bank's AA. When the portions of loans participated or intended to be sold have been removed from the total amount of loans originated, the percentage of loans within the bank's AA improves significantly from 25% to 42%. The 42% ratio approaches, but does not meet the satisfactory performance standard for loans originated within the bank's AA.

### Lending to Businesses of Different Sizes

The distribution of loans reflects a reasonable penetration among businesses of different sizes given the demographics of the AA, the bank's product offerings, and local economic conditions.

**Table 4A (2011)**

<b>PRIME PACIFIC BANK BORROWER DISTRIBUTION OF LOANS TO BUSINESSES IN THE AA</b>				
<b>Business Revenues (or Sales)</b>	<b>≤ \$1,000,000</b>	<b>&gt; \$1,000,000</b>	<b>Unavailable/ Unknown</b>	<b>Total</b>
% of AA Businesses	71.36%	2.75%	25.89%	100.00%
% of Bank Loans in AA by #	50.00%	50.00%	-	100.00%
% of Bank Loans in AA by \$	51.53%	48.47%	-	100.00%

Source: Sample of loans originated during calendar year 2011; 2011 Business Geodemographic Data (Dun and Bradstreet)

The percentage of businesses with revenues of less than or equal to \$1,000,000 within the AA in 2011 was 71.36%. Based on a sample of the bank's business loans, the bank originated 50.00% of its loans to these businesses in 2011. A majority of the total dollar amount of these loans went to businesses with revenues of less than or equal to \$1,000,000. Although the bank's activity is below demographics, it represents reasonable penetration among businesses of different sizes.

**Table 4B (2012 – 6/30/2013)**

<b>PRIME PACIFIC BANK BORROWER DISTRIBUTION OF LOANS TO BUSINESSES IN THE AA</b>				
<b>Business Revenues (or Sales)</b>	<b>≤ \$1,000,000</b>	<b>&gt; \$1,000,000</b>	<b>Unavailable/ Unknown</b>	<b>Total</b>
% of AA Businesses	73.96%	3.26%	22.78%	100.00%
% of Bank Loans in AA by #	65.00%	35.00%	-	100.00%
% of Bank Loans in AA by \$	68.04%	31.96%	-	100.00%

Source: Sample of loans originated during calendar year 2012 and YTD June 30, 2013; 2012 Business Geodemographic Data (Dun and Bradstreet)

The percentage of businesses with revenues of less than or equal to \$1,000,000 within the AA was 73.96% in 2012. Based on a sample of the bank's business loans, the bank originated 65.00% of its loans to these businesses from 2012 through June 30, 2013. A majority of the total dollar amount of these loans went to businesses with revenues of less than or equal to \$1,000,000. Although the bank's activity is below demographics, it represents reasonable penetration among businesses of different sizes.

## Geographic Distribution of Loans

The bank's geographic distribution of loans reflects a more than reasonable dispersion throughout geographies of different income levels within the AA. The bank was not able to penetrate all census tracts within its AA. However, there were no conspicuous gaps in the bank's distribution of loans to geographies of different income levels within the AA.

## Business Loans

The bank's business lending in low- and moderate-income geographies demonstrates a more than reasonable dispersion throughout geographies of different income levels. The bank's business lending in the moderate income geographies of the AA in 2011 exceeded the ratio of businesses located in moderate-income tracts. Our sample did not identify any business loans originated in low-income geographies of the AA in 2011. However, lending opportunities in low-income geographies are very limited due to the very low number of businesses located in low-income geographies. The bank's business lending in low- and moderate-income geographies in 2012 and YTD June 30, 2013 exceeded the ratio of businesses in low- and moderate-income tracts.

**Table 5**

PRIME PACIFIC BANK GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES IN THE AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans 2011*	1.11%	0.00%	18.46%	25.00%	61.70%	55.00%	18.74%	20.00%
Business Loans 2012 and 2013**	2.96%	15.00%	21.42%	20.00%	52.05%	50.00%	23.57%	15.00%

\* Source: Loan sample of business loans originated during calendar year 2011: 2011 Business Geodemographic Data (Dun and Bradstreet)

\*\* Source: Loan sample of business loans originated during calendar year 2012 and YTD June 30, 2013: 2012 Business Geodemographic Data (Dun and Bradstreet)

## **Responses to Complaints**

There have been no consumer complaints relating to the bank's Community Reinvestment Act performance during the evaluation period.

## **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Pursuant to 12 C.F.R. § 25.28(c) or 12 C.F.R. § 195.28(c), in determining a CRA rating for a national bank (bank) or federal savings association (FSA), respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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