

PUBLIC DISCLOSURE

January 18, 2000

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Washington State Bank
Charter Number 23709**

**32303 Pacific Highway South
Federal Way, WA 98003**

**Comptroller of the Currency
Seattle Field Office
1000 Second Avenue, Suite 3300
Seattle, WA 98104**

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 CRA performance of **Washington State Bank** prepared by the Office of the Comptroller of the Currency, as of January 18, 2000. 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**". The CRA rating is derived from the five performance factors listed below:

- Loan-to-Deposit Ratio;
- Percentage of Lending Within the Assessment Area;
- Lending to Businesses of Different Sizes and Borrowers of Different Incomes;
- Geographic Distribution of Loans; and
- Response to CRA Performance Complaints.

The bank's loan-to-deposit ratio is reasonable given the bank's size, its capacity to lend, and the market in which it operates. The bank originated a substantial majority of its loans within its assessment area; this exceeds the standard for satisfactory performance. Although the distribution of residential loans among borrowers of different income levels exceeds the standard for satisfactory performance, the bank's lending to small businesses is well below the demographics of the assessment area. Therefore, the bank's performance for this factor does not meet the standard for satisfactory performance. However, the geographic distribution of the bank's business and residential real estate loans meets the standard for satisfactory performance. There have been no consumer complaints concerning the bank's CRA performance since its last CRA examination, and we found no evidence of discriminatory practices. These factors all led to a composite rating of "Satisfactory".

DESCRIPTION OF INSTITUTION:

Washington State Bank, N.A. (WSB) is a community bank located in the city of Federal Way, Washington. In addition to the main office, WSB maintains a branch in the city of Kent, approximately five miles from the main office. Both locations provide an ATM. WSB relocated its main office in January 1998 to its current location.

WSB is a wholly owned subsidiary of Western Washington Bancorp (WWB). WWB is located at the main office of WSB. As of year-end 1999, WWB had total assets of \$3.8 million¹.

The bank offers a variety of retail bank products and services, including deposit- and loan-related services. The bank originates commercial, real estate, and consumer loans. As of September 30, 1999, WSB had average assets of \$41 million and gross loans totaling \$33.6 million.²

WSB's primary focus is commercial lending. As of September 30, 1999, commercial and commercial real estate loans accounted for 77% of average gross loans, averaging \$23.7 million. Residential real estate loans comprised 19% of average gross loans, averaging \$5.7 million. In addition, consumer loans equaled 4% of average gross loans, averaging \$1.3 million.³

Competition from other financial institutions is significant, with numerous commercial banks, savings and loans, credit unions, and mortgage companies vying for business. WSB offers loans guaranteed by the Small Business Administration (SBA). During the assessment period, the bank originated 27 SBA loans totaling \$5.5 million. In addition, the bank participates in the Small Business Administration Prequalification Pilot Program.

WSB received a "Satisfactory" rating during its previous performance evaluation dated May 13, 1996. The bank is not subject to any lending impediments or supervisory restrictions.

This performance evaluation focuses on the bank's two primary lending products: commercial loans and 1-4 family residential real estate loans. In addition, this evaluation assesses the bank's performance during the assessment period of January 1, 1997 through December 31, 1999.

DESCRIPTION OF KING AND PIERCE COUNTIES:

The bank's assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income census tracts. The assessment area consists of both King and Pierce Counties; however, the majority of the assessment area consists of King County, which accounts for 75% of the census tracts.

Unemployment is low and economic conditions are strong. The major employers for the area include Boeing, Microsoft, and Weyerhaeuser.

¹ Data from 12/31/99 Consolidated Balance Sheet.

² Data from Uniform Bank Performance Report dated September 30, 1999.

³ Data from Uniform Bank Performance Report dated September 30, 1999.

Based on the 1990 Census Data, the assessment area consists of 438 census tracts, of which 77% are middle- and upper-income tracts. The assessment area has a total population of 2,093,522, consisting of 534,535 total families. Of these families, 65% are characterized as upper- and middle-income, 18% are moderate-income, and 17% are low-income.

The following table details the number and percent of census tracts by income level, and the number and percent of total families residing in those geographies.

INCOME OF CENSUS TRACT⁴	NUMBER OF TOTAL CENSUS TRACTS	PERCENT OF TOTAL CENSUS TRACTS	NUMBER OF TOTAL FAMILIES	PERCENT OF TOTAL FAMILIES
Low Income	18	4.11%	11,547	2.16%
Moderate Income	67	15.30%	65,743	12.30%
Middle Income	244	55.71%	324,311	60.67%
Upper Income	95	21.69%	132,934	24.87%
NA	14	3.20%	0	0%
Total:	438	100%	534,535	100%

As evidenced by the data, the majority of the population lives in middle- and upper-income geographies.

The 1990 Census Median Family Income for the assessment area was \$42,767. The Department of Housing and Urban Development estimates the 1999 Updated Median Family Income at \$59,056, an increase of 38%. Yet during the same period, the median price for a house in the assessment area increased by 44%.⁵ From 1990 through 1999, the median house price has increased faster than the median family income.

To determine the credit needs of the area, we conducted one new community contact and reviewed other community contacts initiated by the OCC and other regulators of financial institutions. These contacts indicated that local financial institutions are generally meeting the credit needs of the community; however, there exists a continuing need for affordable housing, as well as small business financing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

To analyze a bank's CRA performance, we evaluate five factors: 1) Loan-to-deposit ratio; 2) Percentage of lending within the bank's assessment area; 3) Lending to businesses of different sizes and borrowers of different incomes; 4) Geographic distribution of loans; and 5) Bank's response to complaints concerning the bank's CRA performance.

⁴ Data from 1990 US Census.

⁵ Data from 1999 NW Multiple Listing Service.

LOAN-TO-DEPOSIT RATIO:

We analyzed WSB's loan-to-deposit ratio over the last eight quarters, December 1997 through September 1999. During these eight quarters, the loan-to-deposit ratio ranged from a low of 77% in March 1998 to a high of 86% in June 1999, with an average ratio of 83%.

We compared WSB's performance under this factor to other state and national banks located in Pierce and King County with total assets less than \$92 million. The sample totaled eight (8) banks with average assets of \$52.3 million, which provided us a reasonable comparison. These banks had an average loan-to-deposit ratio of 74% over the same period. Based on this comparison, WSB's loan-to-deposit ratio meets the standard for satisfactory performance for this factor.

LENDING IN THE ASSESSMENT AREA:

During the assessment period, WSB originated 577 loans representing \$62.5 million. To determine the bank's lending performance in its assessment area, we selected a sample of both business and 1-4 family residential real estate loans.

BUSINESS LENDING:

Our business sample consisted of fifty-three (53) loans, which were originated during the assessment period and totaled \$6.3 million. We determined the demographic distribution based on the census tract associated with the business. The following table shows the distribution of the business loan sample inside and outside the assessment area.

Business Loan Sample

LOAN ORIGINATIONS	NUMBER OF LOANS	PERCENT OF TOTAL	AMOUNT OF LOANS	PERCENT BY DOLLAR VOLUME
INSIDE ASSESSMENT AREA	50	94%	\$6,204,693	98%
OUTSIDE ASSESSMENT AREA	3	6%	\$104,091	2%
TOTAL	53	100%	\$6,308,784	100%

As demonstrated above, the bank originated a substantial majority of its business loans within the assessment area. Moreover, the bank disbursed a substantial majority of lending dollars within the assessment area.

1-4 FAMILY RESIDENTIAL LENDING:

We also evaluated the bank's performance in originating 1-4 family residential real estate loans. Generally, we rely on the bank's Home Mortgage Disclosure Act (HMDA) data; however, we must first test the validity of the data before we can rely on it. In testing the validity of WSB's HMDA data, we found the data unreliable. Consequently, we selected a sample of twenty (20) 1-4 family residential real estate loans that WSB originated during the assessment period. The following table shows the distribution of 1-4 family residential real estate loans inside and outside the assessment area.

1-4 Family Residential Real Estate Loans

LOAN ORIGINATIONS	NUMBER OF LOANS	PERCENT OF TOTAL	AMOUNT OF LOANS	PERCENT BY DOLLAR VOLUME
INSIDE ASSESSMENT AREA	17	85%	\$1,843,000	89%
OUTSIDE ASSESSMENT AREA	3	15%	\$227,000	11%
TOTAL	20	100%	\$2,070,000	100%

As evidenced by the data, a substantial majority of the bank's 1-4 family residential real estate loans were originated within its assessment area. Furthermore, the bank disbursed a substantial majority of loan dollars within the assessment area.

Overall, the bank originated and disbursed a substantial majority of its loans, by number and dollar volume, within its assessment area. This exceeds the standard for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES AND FARMS OF DIFFERENT SIZES:

Our overall conclusion for this rating factor is that the bank's performance does not meet the standard for satisfactory performance. Although the distribution of 1-4 family residential real estate loans reflects excellent penetration among individuals of different income levels, the distribution of loans to businesses of different sizes reflects poor penetration. The poor distribution of the bank's primary product line outweighs the bank's residential lending performance.

DISTRIBUTION OF BUSINESS AND FARM LOANS BY REVENUE SIZE OF BUSINESS OR FARM:

Under this factor, we compared the bank's lending to small businesses in the assessment area to the demographics in the assessment area. A small business is a business or farm with gross annual revenues less than \$1 million. We used a loan sample to determine the bank's lending performance because the bank does collect and maintain revenue data on its business loans. The

sample included fifty (50) loans, totaling \$6.2 million. The bank originated the loans during the assessment period and within the assessment area. The following table shows the distribution by revenue size of the sample and compares it to the demographics of the assessment area.

Distribution of Business Loans by Revenue Size-1/1/97-12/31/1999

GROSS BUSINESS & FARM REVENUES (\$000'S)	NUMBER OF BUSINESSES & FARMS IN ASSESSMENT AREA	PERCENT OF BUSINESSES & FARMS IN ASSESSMENT AREA	NUMBER OF LOANS FROM SAMPLE	PERCENT OF LOAN SAMPLE
\$0-\$1,000	93,783	90.4%	32	64%
OVER \$1,000	9,956	9.6%	18	36%
TOTAL	103,739	100%	50	100%

The data reflects a distribution of loans to small businesses that is well below the demographics of the assessment area. Bank management was unable to provide an explanation for the poor penetration. Consequently, WSB's performance under this factor does not meet the standard for satisfactory performance.

DISTRIBUTION OF LOANS TO BORROWERS OF DIFFERENT INCOME LEVELS:

We selected a sample of seventeen (17) loans to analyze the bank's 1-4 family residential real estate lending. These loans were all originated during the assessment period and within the assessment area. We analyzed this sample of loans to determine the loan distribution among borrowers of different income levels. The following table shows the distribution of these loans by borrower income level and compares it to the distribution of families in the assessment area by family income level.

**Income Distribution of 1-4 Family Residential Real Estate Loans
1/1/97 Through 12/31/99**

APPLICANT INCOME BASED ON UPDATED HUD MEDIAN INCOME⁶	NUMBER AND PERCENT OF TOTAL FAMILIES⁷	NUMBER OF 1-4 FAMILY RESIDENTIAL LOANS	PERCENT OF 1-4 FAMILY RESIDENTIAL LOANS
LOW INCOME⁸	11,547 2%	3	17.65%
MODERATE INCOME⁹	65,743 12%	4	23.53%
MIDDLE INCOME¹⁰	324,311 61%	6	35.29%
UPPER INCOME¹¹	132,934 25%	4	23.53%
TOTAL	534,535 100%	17	100%

This data illustrates that the bank exceeded the demographics for lending to low- and moderate-income borrowers. WSB demonstrated excellent penetration among individuals of different income levels. However, due to the poor performance in lending to small businesses, the bank's overall performance for this factor does not meet the standard for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS:

For this factor, we evaluated the geographic distribution of the bank's business, farm, and 1-4 family residential real estate loans. Overall, the geographic distribution of the bank's loans reflects a reasonable dispersion among census tracts of various income levels.

GEOGRAPHIC DISTRIBUTION OF BUSINESS AND FARM LOANS:

We used our sample of fifty (50) business loans to estimate the geographic distribution of the loans. All loans in the sample were originated within the assessment area and within the assessment period. The following table compares the distribution of the loan sample to the percentage of businesses located in each type of census tract. The following table also compares the distribution of lending dollars to the percentage of businesses located in each type of census tract.

⁶ The HUD Estimated Updated Median Income for this assessment area is \$59,096.

⁷ Data from 1990 US Census.

⁸ A low-income applicant earns less than 50% of the HUD Median Income.

⁹ A moderate-income applicant earns between 50% and 79% of the HUD Median Income.

¹⁰ A middle-income applicant earns between 80% and 119% of the HUD Median Income.

¹¹ An upper-income applicant earns at least 120% of the HUD Median Income.

Geographic Distribution of Business and Farm Loans 1/1/97-12/31/99

INCOME OF TRACT/BNA	PERCENT OF FARMS AND BUSINESSES	NUMBER OF LOANS FROM SAMPLE	PERCENT OF TOTAL LOAN SAMPLE	DOLLAR VOLUME OF SAMPLE	PERCENT OF SAMPLE BY DOLLAR
LOW INCOME	3.9%	2	4%	\$118,000	1.90%
MODERATE INCOME	17.3%	10	20%	\$690,788	11.13%
MIDDLE INCOME	53.2%	30	60%	\$4,780,126	77.04%
UPPER INCOME	25.6%	8	16%	\$615,779	9.93%
TOTAL	100%	50	100%	\$6,204,693	100%

WSB's performance, both in number and dollar volume, demonstrates a reasonable distribution among census tracts of various income levels and meets the standard for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF 1-4 FAMILY RESIDENTIAL LOANS

The bank's geographic distribution of 1-4 family residential real estate loans meets the standard for satisfactory performance. The following table compares the geographic distribution, by number and dollar volume, to the percentage of owner-occupied units located in each type of census tract.

Geographic Distribution of 1-4 Family Residential Real Estate Loans 1/1/97-12/31/99

INCOME OF TRACT/BNA	PERCENT OWNER OCCUPIED UNITS	NUMBER OF LOANS FROM SAMPLE	PERCENT OF TOTAL LOAN SAMPLE	DOLLAR VOLUME OF LOAN SAMPLE	PERCENT OF SAMPLE BY DOLLAR VOLUME
LOW INCOME	0.8%	0	0%	0	0%
MODERATE INCOME	9.4%	2	12%	\$76,000	4%
MIDDLE INCOME	62.0%	8	47%	\$1,153,000	63%
UPPER INCOME	27.8%	7	41%	\$614,000	33%
TOTAL	100%	17	100%	\$1,843,000	100%

This data reflects a reasonable distribution among census tracts of various income levels. In fact, a slightly higher percentage of loans were originated in moderate-income census tracts than the percentage of owner-occupied housing in those census tracts. WSB's performance in lending to low-income tracts is slightly below demographics, but the difference is negligible. The bank's dollar volume reasonably compares to, but does not meet, the demographics of the area. Therefore, the bank's performance meets the standard for satisfactory performance.

RESPONSE TO COMPLAINTS:

WSB has not received any consumer complaints related to its CRA performance since its last CRA examination.

RECORD OF COMPLYING WITH ANTIDISCRIMINATION LAWS:

A concurrent fair lending examination did not identify any evidence of prohibited discriminatory practices. As part of our examination, we reviewed a sample of approved credit applications and examined lending policies and practices. We did not identify any violations involving illegal discrimination or any practices intended to discourage applicants from applying for credit.