



## **INTERMEDIATE SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

---

### **Public Disclosure**

**May 14, 2007**

### **Community Reinvestment Act Performance Evaluation**

**The Commerce Bank of Washington, N.A.  
Charter Number: 18752**

**601 Union Street, Suite 3600  
Seattle, Washington 98101**

**Office of the Comptroller of the Currency  
Large Bank Supervision  
250 E Street, SW, Mail Stop 6-1  
Washington, D.C. 20219-0001**

**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.**

## Overall CRA Rating

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

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

The Community Development Test is rated: **Satisfactory**.

The primary factors supporting the rating for The Commerce Bank of Washington, N.A. (Commerce) include:

- The bank's loan-to-deposit ratio is reasonable based on its size, financial condition, and the credit needs of its assessment area.
- Commerce originated a substantial majority of its loans to borrowers in the assessment area (AA).
- The distribution of Commerce's commercial loans reflects an excellent dispersion among geographies of different income levels in its AA.
- The distribution of Commerce's commercial loans reflects a poor dispersion among businesses of different revenue sizes in its AA.
- Commerce demonstrates an excellent volume of community development activities that are responsive to identified needs in its AA.

## Scope of the Evaluation

This Performance Evaluation assesses Commerce's capacity to help meet the credit needs of the communities in which it operates. An Intermediate Small Bank is subject to a Lending Test and a Community Development (CD) Test. The Lending Test evaluates a bank's record of helping to meet the credit needs of its AA through its lending activities. The CD Test evaluates a bank's CD lending, qualified investments, and CD services activities.

Conclusions regarding Commerce's lending performance are based on small loans to businesses originated or purchased from January 1, 2004 to December 31, 2006, and reported in accordance with 12 CFR 228.42(b)(1). Commercial loans are the bank's primary product based on a review of the number and dollar amount originated during this period. Our evaluation focused on commercial lending activity only, because 50 of the 52 small loans to farms reported by the bank were made by the parent company Zion Bancorporation (Zions), and were outside the bank's AA.

The evaluation period used for the CD Test (April 5, 2004 to May 14, 2007) represents the time between Community Reinvestment Act (CRA) examinations. This test includes a review of the

qualified investments, services, and loans provided in Commerce's AA, and in a greater regional area that includes the bank's AA, that meet the definition of community development.

We also considered and evaluated small loans to businesses and CD activities provided by Zions, the parent and affiliate of Commerce. Home mortgage loans are occasional and only made as an accommodation to the bank's commercial customers. Therefore, they did not impact our conclusions. In addition, as part of this CRA evaluation, we reviewed publicly filed information on small loans to businesses originated in 2004, 2005 and 2006 to determine its accuracy. This information was found to be reliable. CD loans, investments, and services submitted by management were also verified to ensure that they met regulatory definitions.

## **Description of the Institution**

Commerce is an intrastate bank located in downtown Seattle, Washington. As of March 31, 2007, the bank's assets totaled \$793 million, deposits totaled \$475 million, and Tier One Capital totaled \$61 million. The bank's loans, net of the allowance for losses, totaled \$457 million, of which 74% are categorized as commercial, industrial or nonfarm/nonresidential real estate loans. In contrast, less than 3% of the loans are for individuals and less than 10% are for one-to-four family residences. Commerce's primary product focus is on loans to businesses, which has and continues to be the bank's traditional core strategy. Commerce was chartered by the Office of the Comptroller of the Currency (OCC) with the express intent of serving a business clientele. The bank offers some retail consumer products and services, but these are limited and intended only as accommodations to its business customers. Commerce's marketing efforts are primarily through officers calling upon business clients.

Commerce operates out of one office that is located on the 36<sup>th</sup> floor of a downtown Seattle office tower, and does not facilitate the usual retail function of many banks. It has one paying/receiving teller, no drive-through facilities, and no ATMs.

As of June 30, 2006, Commerce had less than 1% of the deposit market share in its AA. This placed the bank at 17<sup>th</sup> in deposit market share ranking.

Since 1998, Commerce has been a subsidiary of Zions in Salt Lake City, Utah. Zions is a registered bank holding company with total assets over \$48 billion. Through its eight banking subsidiaries, Zions operates in communities in the states of Arizona, California, Colorado, Idaho, Nevada, New Mexico, Oregon, Texas, Utah, and Washington. For the purposes of this evaluation, Commerce requested consideration of affiliate loans made in the bank's AA. It has no operating subsidiaries.

The last CRA evaluation for Commerce was on April 5, 2004, when it received a "Satisfactory" rating under the large bank test.

## Description of the Assessment Area

Commerce has one AA, consisting of 159 selected census tracts in the municipalities of Seattle, Bellevue, Kirkland, and Mercer Island, King County, Washington. King County is one of two counties comprising the Seattle-Bellevue-Everett Metropolitan Division 42644, and is located in the western part of the state around the Puget Sound. King County lies on the western shore of Puget Sound and is the largest metropolitan area in the MSA and the state. More than half the population of the county resides in the bank's AA, which also comprises half of the counties and census tracts. There are six low- and 31 moderate-income census tracts in the AA. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geography. The economy of the MSA has long been anchored by lumbering, shipping, and aerospace. Although The Boeing Company remains the highest single source of employment, lumbering and shipping remain significant and many high-tech companies, most notably Microsoft Corporation, now dominate. Seattle is one of the country's major centers for the computer and software industry. Tourism is also a major industry in the area given the significant scenic attractions and Seattle's position as a gateway for travel to Alaska and British Columbia, Canada. The Seattle-Bellevue-Everett economy is expanding, as the major industries of commercial aircraft manufacturing and software development are adding jobs at a steady pace. The unemployment rate has decreased to 4.3%.<sup>1</sup>

Commerce operates in a highly competitive financial market. There are 59 institutions operating 526 branch offices in King County (branch office and deposit data is only available at the county level). The market is dominated by Bank of America, N.A. with 96 branches and 33% of the market share of deposits, followed by U.S. Bank, N.A. with 58 branches and 17% of the deposit market share. Additional lending competition comes from several credit card and mortgage companies operating within the AA.

There are numerous CD needs in the AA. We reviewed and updated community contacts conducted by the OCC and other organizations over the past several years. The robust economy has increased the need for affordable housing in the AA, especially for single family homes and housing for low-income families.

Community groups we contacted indicate that the climate for small business has improved in the AA. However, the robust economy has made real estate and equipment purchases expensive for the average small business. Also, because of the rising costs in the AA, many small businesses are being forced to relocate to less expensive areas outside the AA. This has reduced the opportunities for CD lending and investment because areas within the AA that were once considered in need of investment are becoming more attractive and expensive due to the relative low cost compared to existing established areas.

Other small business needs reported by community groups include revolving loan funds, capital investment, lines of credit, credit card services, and unsecured loans. Also, the banker can assist the small business owner by helping them to understand what they need to do to qualify for a product or service in the future. The contacts also indicated that some commercial banks can be

---

<sup>1</sup> Moody's Economic Data 2007

lenient on environmental issues by not requiring the necessary environmental due diligence. This leniency can get the customer in trouble when environmental issues surface. The contact felt that banks should use their knowledge and experience to educate the borrower. To reach new immigrant communities, education and outreach in the language spoken by the client is critical. Loan officers with ties to the community are also beneficial.

## **Conclusions with Respect to Performance Criteria**

### **LENDING TEST**

Commerce’s performance under the Lending Test is “Satisfactory”. Commerce’s performance in its AA is adequate, based on the volume and location of small businesses. Commerce’s loan-to-deposit ratio is reasonable. A substantial majority of loans originated were to borrowers in the AA. The distribution of Commerce’s commercial loans reflects an excellent dispersion of loans among geographies of different income levels throughout the AA. However, the distribution of Commerce’s small loans to businesses of different income levels is poor.

#### Loan-to-Deposit Ratio

Commerce’s loan-to-deposit ratio is reasonable based on its size, financial condition, and the credit needs of its AA. During the past 12 quarters, Commerce’s loan-to-deposit ratio has averaged 86 percent.

#### Lending in Assessment Area

Commerce originated a substantial majority of its loans to borrowers in the AA. Based on small loans to businesses originated by Commerce during the evaluation period, 75% of the loans were made to borrowers located in the AA.

<b>Table 1 - Lending in The Commerce Bank of Washington AA</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total #	Inside		Outside		Total \$
	#	%	#	%		\$	%	\$	%	
Small Loans to Business	1,017	74.78%	343	25.22%	1,360	235,699	73.74%	83,924	26.26%	319,623

*Source: Small Loans to Business data is obtained from the CRA Loan Register for 2004, 2005 and 2006.*

#### Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The distribution of Commerce’s small loans to businesses is poor. The percentage of loans to businesses with revenues less than \$1 million is substantially lower than the percentage of businesses that reported revenue of less than \$1 million. In concluding on this performance, we noted that a reduced number of banks in Commerce’s peer group actually report CRA loan data. However, we were unable to determine the impact of this fact on Commerce’s performance.

<b>Table 2A - Borrower Distribution of Loans to Businesses in The Commerce Bank of Washington AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	68.11	7.06	24.83	100%
% of Bank Loans in AA by #	28.71	64.21	7.08	100%
% of Bank Loans in AA by \$	21.51	71.20	7.02	100%

Source: Small Loans to Business data is obtained from the CRA Loan Register for 2004, 2005, and 2006. Business Demographics is from 2006 Dunn and Bradstreet data.

### Geographic Distribution of Loans

Commerce’s geographic distribution of small loans to businesses reflects excellent responsiveness among low- and middle-income geographies. Three and one-half percent of the businesses in the AA are located in low-income census tracts, while 3.74% of the bank’s loans were originated to businesses in low-income census tracts. Commerce originated 26.35% of its reportable small loans to businesses in moderate-income census tracts, while 20.12% of the AA businesses were located in moderate-income tracts.

<b>Table 3A - Geographic Distribution of Loans to Businesses in The Commerce Bank of Washington AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans						
Small Loans to Businesses	3.5	3.74	20.12	26.35	38.95	24.58	37.43	45.33

Source: Small Loans to Business data is obtained from the CRA Loan Register for 2004, 2005, and 2006. Business Demographics is from 2006 Dunn and Bradstreet data.

### Responses to Complaints

Neither the bank nor the OCC received any CRA related complaints during the evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

Commerce demonstrates an excellent volume of CD activities that are responsive to credit needs in its AA and the broader regional area that includes its AA. The bank made a total of \$19.7 million in prior and current period investments and new or renewed loans during the evaluation period, representing more than 32% of Tier One Capital.

## Community Development Loans

Commerce originated or renewed 16 loans to eight different CD qualified entities, totaling over \$12 million. The CD needs addressed by these loans included affordable housing and necessary qualified CD services throughout the AA. The bank made three loans totaling \$60 thousand to the Washington Community Reinvestment Corporation to fund CD qualified activities throughout the state of Washington, a greater regional area that includes the AA. Three additional loans for \$6.3 million were made to a CD qualified entity outside the bank's AA. The loans are not counted in the dollar amount in this evaluation of the bank's performance. However, the time and expertise contributed by bank personnel in assisting the organization is considered as a CD service later in this Performance Evaluation.

## Community Development Investments

The majority of the bank's activities consist of investments in Small Business Investment Corporations, or Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) funds benefiting the bank's AA or a larger area that includes its AA. Commerce originated five investments for \$5.4 million and donated \$148 thousand to qualified entities in the current evaluation period. The bank also carries six CD investments for \$1.9 million on its books from prior evaluation periods. Nearly \$4 million of the current and prior period investments are qualified mortgage pools. Approximately \$2.3 million revitalizes low- and moderate-income geographies, and \$591 thousand are for economic development through lending to small businesses. Consideration was given to two out-of-area investments totaling more than \$180 thousand which are municipal bonds providing needed services to the area of the country devastated by Hurricane Katrina. The remainder represents investments in affordable housing projects.

## Community Development Services

Forty-four bank personnel contributed 2,558 hours of CD service to 14 different qualified organizations. These officers/employees provide financial assistance through fund raising, budget preparation and evaluation, investment advice, and advice on financing. A majority of the service organizations provide assistance in a variety of ways to primarily low- and moderate-income individuals, while the remainder assists small businesses. Commerce continues to be a major supporter of the Compass Center, contributing a significant amount of time and talent. The Compass Center provides various needed services for low-income persons, including those who are homeless. Bank officers were responsive in helping the Compass Center establish banking capabilities for its clients. CD services include budgeting, as well as, processing payments for clearance from government organizations on behalf of homeless individuals. These individuals may deposit their funds with the center and withdraw them on an as-needed basis. The center has a teller and banking system (including an ATM), giving it the ability to provide efficient and tailored banking services to the very needy. Commerce took a leadership position in formulating and implementing this concept. Commerce provided significant CD time and talent to a processing plant located adjacent to the bank's AA. The native Alaska population benefiting from this service is predominately low- to moderate-income (LMI). This service

addresses needs in a broader, statewide region that includes the AA but does not directly benefit the AA. It is considered positively because Commerce has adequately addressed its AA needs.

### **Fair Lending or Other Illegal Credit Practices Review**

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