



SMALL BANK

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

PUBLIC DISCLOSURE

January 3, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Redmond National Bank
Charter Number 18746**

**15801 NE 85th Street
Redmond, WA 98073**

**Comptroller of the Currency
San Francisco Field Office
One Front Street, Suite 1000
San Francisco, CA 94111**

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.**”

The major factors that support this rating include:

- ❑ The average loan-to-deposit ratio of 102% is excellent.
- ❑ The majority of loans are in the bank's assessment area.
- ❑ Business loan distribution reflects reasonable penetration among businesses of different sizes.
- ❑ Geographic loan distribution reflects reasonable dispersion throughout the assessment area.
- ❑ There have not been any public complaints about the bank's CRA performance.

DESCRIPTION OF INSTITUTION

Redmond National Bank (RNB) is a full-service community bank located in the city of Redmond, Washington. The bank was founded in 1988 and is a wholly-owned subsidiary of Washington Commercial Bancorp, a one-bank holding company located in Redmond. As of September 30, 2004, total bank assets are \$99 million, 93% of which are net loans. The bank received a "Satisfactory" rating at the last CRA examination, dated September 20, 1999.

In addition to its main office, the bank has one branch in the Redmond area. Other alternative delivery systems include an ATM provided at each location, courier service for business customers, Internet banking, and Saturday banking at their branch location. No offices have been opened or closed since our last examination.

The bank provides its customers with a full range of traditional business and personal banking products and services with an emphasis on supporting small businesses in the King County area. There are no financial or legal impediments that affect the bank's ability to meet the credit needs of its assessment area.

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

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) consists of portions of the Seattle-Bellevue-Everett Metropolitan Statistical Area (MSA) 42660 and includes the cities of Redmond, Kirkland, Bellevue, Issaquah, Woodinville, and Bothell, among others. According to the 2000 U.S. Census, the assessment area consists of 112 census tracts. Of these tracts, four percent are defined as moderate-income tracts; there are no low-income tracts. The 2004 HUD MSA median family income for the assessment area is \$77,900.

Major employment sectors in the assessment area include aircraft manufacturing, computer and data processing services, business services, medical services, and residential and commercial building construction. Employment has demonstrated strong growth over several recent years and area unemployment over this time has characteristically remained below the national average. However, the current national economic recession has been amplified in the local economy due, in part, to concentrations in aviation and computer technologies. As a result, many of the area's large industries have been downsizing sharply and negative employment growth is evident in certain sectors. Recent unemployment rates in King County have exceeded the national average; however, these have generally lagged the Washington statewide percentage that has risen above seven percent. Ongoing downsizing at Boeing has intensified concerns for the local economy.

Competition within the assessment area is strong. Other financial institutions include branches of large multi-national banks, savings and thrift associations, credit unions, and larger community banks.

In conjunction with this CRA examination, we conducted a community contact interview. Community contacts are interviewed to learn about credit opportunities within the community and how well financial institutions address the credit and service needs of the community. The contact for this examination included a representative from a community development financial institution that serves the small business needs in the northwest section of Washington. The contact identified a need for investments or donations in their organization to fund loans for disadvantaged, yet hard-working small businesses. There is a need for small business financial education and loans to support start-up businesses.

Please refer to the bank's CRA public file for more information about the assessment area.

DETERMINATION OF PRIMARY LOAN PRODUCTS

Table 1 lists the outstanding balance of the bank's major loan products as of December 2004.

Table 1

LOAN PORTFOLIO COMPOSITION December 2004	
Loan Type	% of Portfolio
Commercial (including commercial RE)	68%
Residential Real Estate	15%
Consumer	12%
Other	5%
Total:	100%

*Source: Bank Compiled Data as of 12/10/04 –Number of Loans

Commercial loans are the bank's primary loan product, so we reviewed a sample of commercial loans originated between January 1999 and December 2004.

The percentage of the bank's assessment area defined as LMI according to the U.S. Census decreased from six percent in 1990 to four percent in 2000. In order to improve the accuracy of our results and compensate for that change, we compared loans originated between 2000 and 2002 to the 1990 Census data, and loans originated during 2003 and 2004 to the 2000 Census data.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio is an indicator of a bank's willingness to lend. The bank's degree of lending is excellent given its size, the credit needs of the assessment area, and the competitive banking market within the assessment area. We analyzed the bank's quarterly LTD ratio from December 1999 to September 2004. During this period, the LTD ratio averaged 102%.

We compared the bank's LTD ratio with that of peer banks operating in King County that have similar demographics, asset size, and lending products. This peer group consists of four financial institutions, ranging in total asset size from \$56 million to \$167 million. The average quarterly LTD ratio for the four banks in the peer group was 87%, compared to 102% for Redmond National Bank. The bank's LTD ratio is excellent and exceeds the standard for satisfactory performance.

Lending in Assessment Area

A majority of loans and other lending-related activities occur in the bank's assessment area (AA).

Analysis for lending in the assessment area included a sample of 40 commercial loans originated from January 2000 through December 2004. We found 70% of loans (by number) and 69% (by dollar volume) were originated within the AA. In order to meet the standard in this performance criterion, the bank needs to originate at least 50% of its loans within their assessment area. Consequently, the bank's lending to businesses within the assessment area meets the standard for satisfactory performance.

Lending to Businesses of Different Sizes

Given the demographics of the assessment area, the bank's distribution of loans reflects reasonable penetration among businesses of different sizes.

We selected a random sample of 40 commercial loans to evaluate the bank's performance. These loans were originated between January 2000 and December 2004, and were within the bank's assessment area.

We compared the bank's lending to businesses in the assessment area to the demographics of small businesses of the assessment area. Small businesses are those with gross revenues of \$1 million or less. Table 2 displays the bank's lending practices based on our sample of commercial loans.

Table 2

Income Distribution of Loans to Businesses King County Assessment Area Years 2000-2002		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	66%	6%
% of Bank Loans in AA by #	55%	45%
% of Bank Loans in AA by \$	46%	54%

* Demographic Data Source: 2003 Dun & Bradstreet - 28% of AA businesses did not report revenue data

Table 2 shows 55% of the bank's 2000-2002 commercial originations (by number of loans) were to borrowers with gross annual revenues of \$1 million or less. This is below the Dun and Bradstreet data, which shows that 66% of reported businesses had gross annual revenues of \$1 million or less. The bank's primary commercial loan product is short-term residential real estate construction loans. Our sample was based on a loan trial balance as of December 2004, which did not reflect loans originated but paid off. The 2000-2002 sample contained fewer residential real estate construction loans, which is their primary loan product. The term for residential construction loans is usually less than one year.

The following table displays the bank’s lending practices based on our sample of 2003 and 2004 commercial sample.

Table 3

Income Distribution of Loans to Businesses King County Assessment Area Years 2003-2004		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	68%	6%
% of Bank Loans in AA by #	80%	20%
% of Bank Loans in AA by \$	75%	25%

** Demographic Data Source: 2004 Dun & Bradstreet - 26% of AA businesses did not report revenue data*

Table 3 shows 80% of the bank’s 2003-2004 commercial originations (by number of loans) were to borrowers with gross annual revenues of \$1 million or less. This is significantly higher when compared to 2004 Dun and Bradstreet data that shows 68% of reporting businesses had gross annual revenues of \$1 million or less. This indicates excellent responsiveness in meeting the credit needs of small business customers in their assessment area. However, when we consider both samples, the bank’s lending to small businesses meets the standard for satisfactory performance.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

We reviewed the pattern for geographic distribution of lending between low- and moderate-income tracts within the assessment area. Table 4 details the bank's commercial lending activity within the assessment area. We used the same sample of loans from the **Lending to Businesses of Different Sizes** section of this performance evaluation.

Table 4

Geographic Distribution of Loans to Businesses King County Assessment Area								
Census Tract Income Level ¹	Low		Moderate		Middle		Upper	
	% 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	% of AA Businesses
2000 - 2002 Sample ¹	0	0%	30%	4%	20%	43%	50%	53%
2003 - 2004 Sample ²	0	0%	0%	4%	40%	44%	60%	52%

Demographic Data Source: ¹ 2003 Dun & Bradstreet ² 2004 Dun & Bradstreet

The commercial loan sample indicates lending in moderate-income tracts during 2000 through 2002 significantly exceeds the demographics of the assessment area. However, there was no penetration in the 2003 and 2004 loan sample. The bank's main office was located in a moderate-income tract based on 1990 Census data, but changed to a middle-income tract after the 2000 U.S. Census evaluation. There are four moderate-income tracts in their assessment area; three of which are concentrated approximately 15 miles from their main office and branch. There is one moderate tract within a couple miles of its main office and branch. When we consider both samples, the bank's lending in moderate-income geographies meets the standard for satisfactory performance.

Responses to Complaints

Redmond National Bank has not received any written complaints associated with its performance under the Community Reinvestment Act.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.