

PUBLIC DISCLOSURE

July 19, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Baker Boyer National Bank
Charter Number 3956**

**Second and Main Street
Walla Walla, Washington 99362**

**Comptroller of the Currency
50 Fremont Street, Suite 3900
San Francisco, California 94105**

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 **Baker Boyer National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of July 19, 1999. 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**".

Baker Boyer National Bank demonstrates a reasonable loan-to-deposit ratio given the bank's size, its capacity to lend, and the market in which it operates. A 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 and businesses and farms of different sizes. There have been no consumer complaints related to the bank's performance under the CRA since our last examination.

DESCRIPTION OF INSTITUTION

Baker Boyer National Bank (BBNB) is a community bank headquartered in Walla Walla, WA. In addition to the main office, the bank has three branches in the Walla Walla area. A new branch was opened in January, 1999 in Connell and an additional branch is planned for Kennewick, WA. The vast majority of the bank's lending is still concentrated in Walla Walla county. BBNB was founded in 1869 and is the oldest bank in the State of Washington. The bank is wholly-owned by Baker Boyer Bancorp.

The bank is in sound financial condition and had total assets of \$311 million as of June 30, 1999. Net loans represent approximately 69% of the bank's assets.

BBNB serves a wide array of local lending needs, with a primary focus on small business and residential real estate lending. This lending distribution is reflected by the composition of the bank's loan portfolio. Based on the bank's latest available Call Report data from March 31, 1999, residential real estate loans represent 40% of gross loans. Commercial and commercial real estate loans represent 38%, agricultural loans 15%, and consumer loans 7%.

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

DESCRIPTION OF ASSESSMENT AREA

The bank's new assessment area (AA) consists of Franklin, Benton and Walla Walla counties. The bank expanded its AA in June, 1999 to include Benton County in anticipation of opening a branch there. However, as of our examination date there has been no lending originated from the Benton County branch. Therefore, for purposes of our examination we will assess the bank's performance based on the former AA of Franklin and Walla Walla counties.

Based on 1990 Census Data, the AA contained nine census tracts in Franklin County, which is part of the Benton-Franklin Metropolitan Statistical Area (MSA). Walla Walla County is not located in an MSA, and is comprised of nine block numbering areas (BNA's). The entire AA had a total population of 82,178.

The following table shows the number and percent of census tracts/BNA's by income level, and the percent of total families residing in those geographies.

INCOME CHARACTERISTIC OF CENSUS TRACT/BNA	# OF TOTAL CENSUS TRACTS/BNA'S	% OF TOTAL CENSUS TRACTS/BNA'S	% OF TOTAL FAMILIES
Low Income	1	5%	3%
Moderate Income	6	33%	34%
Middle Income	8	50%	51%
Upper Income	3	17%	12%
TOTAL:	18	100%	100%

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

The 1990 non-metro median family income for Washington State based on U.S. Census Bureau data is \$29,672. The Department of Housing and Urban Development (HUD) has estimated the 1998 non-metro median family income for Washington State is \$37,300.

Major employment sectors in Walla Walla County include services (23%), government (20%), retail & wholesale trade (20%) and manufacturing (18%). Major employers in the area include Broetje Orchards, IBP, Inc. and Walla Walla Community College. The median home price in Walla Walla and Franklin counties in 1998 was \$97,000 and \$108,400, respectively, according to data from the Washington Center for Real Estate Research. Competition from other financial institutions is significant, with at least eight commercial banks and savings and loans vying for business.

We conducted one new community contact and reviewed other recent community contacts initiated by the OCC and other federal financial institution regulators to determine credit needs in the area. The new contact represented an affordable housing group. The prior contacts represented organizations focused on economic development and affordable housing issues. These contacts indicate local financial institutions are generally meeting the credit needs of the community. However, there exists a continuing need for affordable housing in the AA. The new contact also expressed their desire to see local financial institutions consider innovative and flexible lending products, such as providing financing for entry-level single family housing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN TO DEPOSIT RATIO

We analyzed BBNB's loan-to-deposit ratio over the last eight quarters from April 1, 1997 through March 31, 1999. During these eight quarters, the loan-to-deposit ratio ranged from a low of 72.4% on December 31, 1998 to a high of 85.6% at March 31, 1999, with an average ratio of 77.7%.

We compared BBNB's performance under this criteria to other national and state chartered banks in the State of Washington with total assets between \$200-\$500 million. The sample totaled 20 banks as of March 31, 1999, with average total assets of \$309 million. This sample provides a reasonable comparison. These banks had an average loan-to-deposit ratio over the same period of 82.7%. Based on this information, BBNB's loan-to-deposit ratio is reasonable given the bank's size, its capacity to lend, and the market in which it operates.

LENDING IN THE ASSESSMENT AREA

Over the period August 1, 1997 through June 30, 1999 (the assessment period), BBNB originated 1,766 loans totaling over \$109 million. The bank records census tract and revenue information for all types of loans. Our analysis focused on two main lending categories: small business and small farm loans, and residential real estate loans. We tested the validity of the census tract data for business and farm loans and found an unacceptable error rate of 40%.

The high error rate is primarily due to insufficient staff training and an ineffective secondary review. As a result, we selected a sample of 30 business and farm loans in order to determine the geographic distribution of those loans. In addition, we tested the validity of the bank's data with respect to the gross annual revenues for business and farm loan customers. We found this data to be reliable.

Bank data on business loans provided to examiners was segregated based on loans originated within and outside the AA. Thus, we were unable to select and analyze a random sample of business and farm loans originated both within/outside the AA. As a result, our business and farm loan sample was selected from loans originated within the assessment area.

We also tested the validity of census tract and income information collected by the bank for one to four family residential loans and found this data to be reliable. The table on the following page shows the distribution of one to four family residential loans within and outside the AA.

**LENDING WITHIN/OUTSIDE ASSESSMENT AREA:
ONE TO FOUR FAMILY RESIDENTIAL LOANS**

	NUMBER OF LOANS	% OF NUMBER OF LOANS	DOLLAR AMOUNT OF LOANS (000'S)	% OF DOLLAR AMOUNT OF LOANS
ORIGINATIONS INSIDE ASSESSMENT AREA	248	86%	\$18,892	84%
ORIGINATIONS OUTSIDE ASSESSMENT AREA	40	14%	\$3,487	16%
TOTAL ORIGINATIONS	288	100%	\$22,379	100%

As evidenced by the data, a majority of the banks one to four family residential loans were originated within its assessment area.

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

Overall, the distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses and farms of different sizes.

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

Small business loans are characterized as loans to businesses and farms with gross annual revenues less than \$1 million. The bank collects and maintains data indicating whether loans are to small businesses and farms. As noted above, we tested the validity of this data and found it to be accurate. The following table shows the distribution of the banks business and farm loans within the assessment area by revenue size.

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

GROSS BUSINESS & FARM REVENUES (000'S)	# OF BUSINESSES & FARMS IN ASSESSMENT AREA	% OF BUSINESSES & FARMS IN ASSESSMENT AREA	# OF LOANS	% OF LOANS
\$0 - \$1,000	2,459	91%	386	91%
\$1,000+	235	9%	37	9%
TOTAL:	2,694	100%	423	100%

The data reflects a reasonable distribution of loans among businesses and farms of different sizes. In fact, the number of loans originated to small businesses and farms is directly correlated to the percentage of small businesses and farms in the bank's assessment area.

A more detailed breakdown of our sample of business and farm loans reflects a reasonable dispersion of loans to businesses and farms of different sizes:

DISTRIBUTION OF BUSINESS & FARM LOANS BY REVENUE SIZE OF BUSINESS OR FARM

GROSS BUSINESS & FARM REVENUES (000'S)	# OF LOANS REVIEWED	% OF LOANS REVIEWED
\$0 - \$100	6	20%
\$101 - \$250	8	26.5%
\$251 - \$500	8	26.5%
\$501 - \$1,000	6	20%
\$1,000+	2	7%
TOTAL:	30	100%

As evidenced by the data, the bank is making loans to small businesses and farms of different sizes, particularly very small businesses. We also analyzed the bank's one to four family residential loans in the assessment area. This loan category amounted to over 40% of the bank's outstanding loan portfolio as of March 31, 1999. As noted above, we tested the validity of the bank's data concerning the income of residential borrowers. We found the data to be reliable. However, 24 of the 248 loans originated within the AA did not have income information. Consequently, we reviewed 224 residential loans to determine the income distribution among borrowers of different income levels. The following table shows the distribution of those loans:

INCOME DISTRIBUTION OF ONE TO FOUR FAMILY RESIDENTIAL LOANS

APPLICANT INCOME AS A PERCENT OF MEDIAN	PERCENT OF TOTAL FAMILIES	# OF 1 TO 4 FAMILY RESIDENTIAL LOANS	% OF 1 TO 4 FAMILY RESIDENTIAL LOANS
Low Income	25%	21	9%
Moderate Income	19%	30	14%
Middle Income	22%	36	16%
Upper Income	34%	137	61%

TOTAL:	100%	224	100%
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Compliance Officer Dan Oliver stated that the Walla Walla area has lost a number of industrial employers over the past few years. These jobs have been replaced by lower paying, service sector jobs. He felt that individuals holding these jobs have difficulty in generating enough income to qualify for a mortgage and save for a down payment.

Management's contention is supported by an analysis of income and housing price trends. As noted earlier in this evaluation, the non-metro statewide median family income has increased about 26% from 1990 to 1998. However, the median housing value in Walla Walla County has increased 79% over the same period. These trends tend to make home purchases for low and moderate income individuals increasingly difficult. Based on management's explanation and our analysis, we do not consider the distribution unreasonable.

GEOGRAPHIC DISTRIBUTION OF LOANS

Overall, the geographic distribution of the bank's loans reflects reasonable dispersion throughout its assessment area.

We used our sample of business and farm loans to estimate the geographic distribution of the bank's 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.

GEOGRAPHIC DISTRIBUTION OF BUSINESS AND FARM LOANS

INCOME CHARACTERISTIC OF TRACT/BNA	% OF TOTAL TRACTS/BNA'S	# OF TOTAL BUSINESS & FARM LOANS	% OF TOTAL BUSINESS & FARM LOANS
Low Income	5%	2	7%
Moderate Income	33%	4	13%
Middle Income	50%	17	57%
Upper Income	17%	7	23%
TOTAL:	100%	30	100%

Five of the six moderate income geographies in the assessment area are located in Franklin county. BBNB opened a branch in Franklin county in January, 1999 and has not yet had the opportunity to generate significant lending activity there. As a result, we consider the above distribution reasonable.

We also analyzed the banks one to four family residential loans. We tested the validity of the bank's data for the geographic distribution of this loan type and found it to be reliable. The table on the following page compares the geographic distribution of residential loans to the income distribution of census tracts.

GEOGRAPHIC DISTRIBUTION OF ONE TO FOUR FAMILY RESIDENTIAL LOANS

INCOME CHARACTERISTIC OF TRACT/BNA	% OF TOTAL TRACTS/BNA'S	# OF 1 TO 4 FAMILY RESIDENTIAL LOANS	% OF 1 TO 4 FAMILY RESIDENTIAL LOANS
Low Income	5%	2	1%
Moderate Income	33%	27	11%
Middle Income	50%	156	63%
Upper Income	17%	63	25%
TOTAL:	100%	248	100%

The modest penetration in low and moderate income census tracts is negatively impacted by the high level of rental housing in those geographies. Renter occupied and vacant units in low and moderate income geographies totaled over 57% of the total housing stock, compared to less than 31% in middle and upper income geographies. Consequently, we do not consider the above distribution unreasonable.

RESPONSE TO COMPLAINTS

Since our last examination BBNB has not received any consumer complaints 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.

