



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**April 08, 2002**

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

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

**4710 196th Street SW  
Lynnwood, WA 98036**

**Comptroller of the Currency**

**1000 Second Avenue Suite 3300  
Seattle, WA 98104**

**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.**

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## **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 Prime Pacific Bank, N.A., prepared by The Office of the Comptroller of the Currency, as of April 8, 2002. 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 average loan-to-deposit ratio of 86.32% is reasonable given the bank's size, financial condition, credit needs and competitive banking market of the assessment area.
- A majority of loans are in the bank's assessment area.
- The distribution of loans reflects low penetration among businesses of different sizes.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area.
- There have been no complaints about the bank's CRA performance from the public.

## **DESCRIPTION OF INSTITUTION**

Prime Pacific Bank (Prime Pacific) is a community bank headquartered in Lynnwood, Washington with one branch in a nearby town. The bank also has a branch charter to operate a courier service to accept deposits in Washington State. Prime Pacific Financial Services, Inc. became the holding company for the bank in January 2001 and is the sole owner of the bank.

The bank is in sound financial condition with total assets of \$35 million as of December 31, 2001. Net loans represent approximately 86% of the bank's assets. The bank acquired one branch in October 2000 and has not closed any branches since the previous CRA examination.

Prime Pacific is a full-service bank offering loans, deposit accounts, and traditional banking services. Prime Pacific's primary focus is business lending, which accounts for 92% of the bank's loan portfolio. The bank also offers home improvement, credit card, and consumer loans. There

are no financial or legal impediments that affect Prime Pacific's ability to meet the credit needs of its assessment area.

The following table shows the composition of the loan portfolio as of December 31, 2001:

<b>LOAN PORTFOLIO COMPOSITION December 31, 2001</b>		
<b>Loan Type</b>	<b>\$ Volume (000)</b>	<b>% of Portfolio</b>
Agriculture	151	0.50%
Commercial Real Estate	16,408	54.66%
Commercial	11,040	36.77%
1-4 Family Residential	1,164	3.88%
Consumer	1,258	4.19%
Total:	30,021	100.00%

This office conducted the previous CRA evaluation dated January 23, 1999. The bank received a "Satisfactory" rating.

## **DESCRIPTION OF SNOHOMISH AND KING COUNTIES**

The bank's assessment area consists of all of Snohomish County and eight census tracts in Bothell and Kenmore. Based on 2000 census data, the bank's assessment area has a population of 672,426. The population has increased 16% since the 1990 U.S. Census. The community is located in a Metropolitan Statistical Area. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. The area is primarily urban and is supported by small businesses. The assessment area is comprised of 102 census tracts. The assessment was expanded due to a branch opened in Kenmore, WA. The following table details the number and percentage of census tracts by income level within the bank's assessment area.

<b>ASSESSMENT AREA COMPOSITION INCOME DISTRIBUTION OF CENSUS TRACTS &amp; FAMILIES</b>				
<b>Income of Census Tracts</b>	<b>Number of Total Census Tracts</b>	<b>Percent of Census Tracts</b>	<b>Number of Total Families</b>	<b>Percent of Total Families</b>
Low Income	2	1.96%	1,438	1.02%
Moderate Income	16	15.69%	22,820	16.20%
Middle Income	71	69.61%	99,054	70.31%
Upper Income	13	12.74%	17,560	12.47%
Total:	102	100.00%	140,872	100.00%

Sources: 1990 U.S. Census and Dun & Bradstreet

The 2001 updated Department of Housing and Urban Development (HUD) MSA median family income for the assessment area is \$42,260, and the MSA median housing value is \$127,755. Based on 1999 U.S. Census data, there are 140,872 families residing in the assessment area. Of these families, 1.02% live in low-income tracts, 16.20% in moderate-income tracts, 70.31% in middle-income tracts, and 12.47% in upper-income tracts. Sixty-three percent of the population has owner-occupied housing. Six percent of the families are below the poverty level.

The local economy is supported by businesses of all sizes. The largest employers in the assessment area are The Boeing Company and the State of Washington. The unemployment rate for Snohomish and King counties during the years of 1999 - 2001 has increased from an average of 3.40% in 1999 to 4.79% in 2001. This trend is due to the layoffs from the Boeing Company and Internet-related companies.

Competition from other financial institutions is strong. There are 32 financial institutions in the bank's assessment area, including 17 commercial banks, 3 savings banks, and 12 credit unions.

In conjunction with this CRA examination, we conducted a community contact interview. In addition, we reviewed two other contact interviews that were conducted by the FDIC in the bank's assessment area. 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 contacts were representatives of the Chamber of Commerce and two community based development organizations located in Snohomish County. They stated that financial institutions are meeting the needs of the assessment area through existing loan products. However, more affordable housing is needed. According to the South Snohomish Chamber of Commerce, the City is planning for a Lynnwood Town Center. The town center will be a mix of retail shops and housing units. Expansion of the Alderwood Mall will commence in the summer of 2002, which will make it the largest in Washington State.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

The bank's loan-to-deposit (LTD) ratio meets the standard for satisfactory performance.

Prime Pacific's level of lending is satisfactory given the bank's size, its capacity to lend, credit needs of the assessment area, and the competitive banking market in Northwestern Washington. We analyzed Prime Pacific's LTD ratio over the last 13 quarters, December 1998 through December 2001. During these 13 quarters, the bank's LTD ratio ranged from a low of 70.55% in March 2001 to a high of 97.60% in December 2001, with an average of 86.32%.

We compared Prime Pacific's performance under this criterion to six banks in King and Snohomish Counties with total assets between \$49 million and \$102 million. These banks had an average LTD ratio over the same period of 78.92%. Based on this data, we consider Prime

Pacific's LTD ratio to be reasonable.

### **Lending in Assessment Area**

The bank's level of lending within its assessment area meets the standard for satisfactory performance.

Our analysis of lending in the assessment area was determined from a review of the bank's two primary loan products: commercial real estate and commercial loans. We reviewed a random sample of 20 loans from each loan product originated since the previous CRA examination. The following table demonstrates the distribution of commercial real estate and commercial loans originated inside and outside Prime Pacific's assessment area (AA).

<b>COMMERCIAL REAL ESTATE AND COMERCIAL LOANS YEARS 1999-2002</b>								
	<b>Inside Assessment Area</b>				<b>Outside Assessment Area</b>			
	<b># of Loans</b>	<b>% of Loans</b>	<b>\$ (000's) of Loans</b>	<b>% of \$(000)</b>	<b># of Loans</b>	<b>% of Loans</b>	<b>\$ (000's) of Loans</b>	<b>% of \$(000)</b>
Total Loans Reviewed	28	70.00%	6,412	60.01%	12	30.00%	4,272	39.99%

As demonstrated above, the bank originated a majority of its commercial real estate and commercial loans within the assessment area of approximately 70%. In addition, the bank disbursed a majority of lending dollars within the assessment area of 60%. Consequently, the bank's lending within the assessment area meets the standard for satisfactory performance.

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

The bank's level of lending to businesses of different sizes does not meet the standard for satisfactory performance.

Our sample included 20 commercial real estate and 20 commercial loans, totaling \$7.8 million and \$1.7 million, respectively. These loans were originated between May 1999 and February 2002, and are within the bank's assessment area.

We compared the bank's lending to commercial businesses in the assessment area to the demographics of small businesses in the assessment area. For this performance evaluation, businesses with annual gross revenues of \$1 million or less are considered small. Updated business demographics reflect that 93% of businesses in the assessment area qualify as small businesses. The following table reflects the distribution of commercial real estate and agricultural loans by business revenue size.

<b>DISTRIBUTION OF COMMERCIAL REAL ESTATE LOANS BY ANNUAL REVENUE YEARS 1999 - 2002</b>					
<b>Revenue Size</b>	<b># of Loans</b>	<b>% of Loans</b>	<b>\$ (000's) of Loans</b>	<b>% of \$(000)</b>	<b>% of Small Businesses in AA*</b>
Under \$1,000,000	14	70.00%	4,625	59.30%	92.57%
Over \$1,000,000	6	30.00%	3,175	40.70%	7.43%
Total Loan Sample:	20	100.00%	7,800	100.00%	100.00%

\*Source: 2000 Dun & Bradstreet

<b>DISTRIBUTION OF COMMERCIAL LOANS BY ANNUAL REVENUE YEARS 1999-2002</b>					
<b>Revenue Size</b>	<b># of Loans</b>	<b>% of Loans</b>	<b>\$ (000's) of Loans</b>	<b>% of \$(000)</b>	<b>% of Small Businesses in AA*</b>
Under \$1,000,000	13	65.00%	793	46.61%	92.57%
Over \$1,000,000	7	35.00%	908	53.99%	7.43%
Total Loan Sample:	20	100.00%	1,701	100.00%	100.00%

\*Source: 2000 Dun & Bradstreet

These tables reflect a distribution of loans to small businesses that is well below the demographics of the assessment area. This disparity is due to the bank's practice of origination of large dollar amount loans and selling a portion of that loan to other institutions. Of the commercial real estate loans reviewed, 50% are to businesses with annual revenues below \$500,000. Of the commercial loans, 55% of the businesses had gross annual revenues below \$500,000, reflecting the bank's commitment to loan to micro businesses. Overall, the bank needs to improve their marketing focus to enhance loan penetration to small businesses in their assessment area. Consequently, the bank's performance under this factor does not meet the standard for satisfactory performance.

We did not include a review of consumer loans in our analysis because they comprise a small portion of the bank's portfolio.

### **Geographic Distribution of Loans**

The bank's geographic distribution of loans within the assessment area exceeds the standard for satisfactory performance.

To determine if the distribution among census tracts of various income levels for small

businesses meets the demographics of the assessment area we analyzed the same loan sample used in the Lending to Borrowers of Different Income and Businesses of Different Sizes. Prime Pacific's assessment area consists of two low income tracts, 16 moderate income tracts, 71 middle income tracts, and 13 upper income tracts. Dun & Bradstreet demographic information indicates that 18% of small businesses in the bank's assessment area are located in low to moderate income tracts. Based on our total loan sample, we did not identify any areas of low penetration in the bank's lending patterns. The following table illustrates the geographic distribution of the bank's commercial real estate lending within its assessment area.

<b>COMMERCIAL REAL ESTATE LOANS' GEOGRAPHIC DISTRIBUTION YEARS 1999-2002</b>					
<b>Income of Tract</b>	<b># of Loans</b>	<b>% of Loans</b>	<b>\$ (000's) of Loans</b>	<b>% of \$(000)</b>	<b>% of Small Businesses in AA*</b>
Low Income	0	0.00%	0	0.00%	1.50%
Moderate Income	4	20.00%	1,317	16.88%	16.87%
Middle Income	15	75.00%	6,077	77.91%	70.87%
Upper Income	1	5.00%	406	5.21%	10.76%
<b>Total Loan Sample:</b>	<b>20</b>	<b>100.00%</b>	<b>7,800</b>	<b>100.00%</b>	<b>100.00%</b>

\*Source: Dun & Bradstreet

The table indicates that loan penetration in the moderate income tract is above small business Dun & Bradstreet demographics. The bank's geographic distribution of commercial real estate loans reflects excellent dispersion throughout the assessment area, and exceeds the standard for satisfactory performance.

The following table illustrates the geographic distribution of the bank's commercial lending within the assessment area.

<b>COMMERCIAL LOANS' GEOGRAPHIC DISTRIBUTION YEARS 1999-2002</b>					
<b>Income of Tract</b>	<b># of Loans</b>	<b>% of Loans</b>	<b>\$ (000's) of Loans</b>	<b>% of \$(000)</b>	<b>% of Small Businesses in AA*</b>
Low Income	1	5.00%	200	11.76%	1.50%
Moderate Income	7	35.00%	223	13.11%	16.87%
Middle Income	12	60.00%	1,278	75.13%	70.87%
Upper Income	0	0.00%	0	0.00%	10.76%
<b>Total Loan Sample:</b>	<b>20</b>	<b>100.00%</b>	<b>1,701</b>	<b>100.00%</b>	<b>100.00%</b>

\*Source: Dun & Bradstreet

The table indicates that loan penetration in the low and moderate income tract is significantly above the demographics. The bank's geographic distribution of commercial loans exceeds the standard for satisfactory performance.



## **Responses to Complaints**

The bank has not received any complaints from the public concerning its CRA performance since the previous CRA examination.

## **Fair Lending Review**

An analysis of 1999 - 2001 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam performed in 1999.