

# **PUBLIC DISCLOSURE**

**November 30, 2009**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Bank of Whitman  
RSSD #123178**

**201 South Main Street  
Colfax, Washington 99111**

**Federal Reserve Bank of San Francisco  
101 Market Street  
San Francisco, California 94105**

*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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## INSTITUTION RATING

### ***Institution's CRA Rating***

Bank of Whitman is rated "SATISFACTORY"

*The following table shows the performance ratings for the lending and community development tests.*

<b>PERFORMANCE LEVELS</b>	<b>PERFORMANCE TESTS</b>	
	<b>LENDING TEST</b>	<b>COMMUNITY DEVELOPMENT TEST</b>
OUTSTANDING		
SATISFACTORY	<b>X</b>	<b>X</b>
NEEDS TO IMPROVE		
SUBSTANTIAL NONCOMPLIANCE		

The major factors supporting the institution's rating include:

- A substantial majority of loans and other lending-related activities in the assessment area;
- Reasonable distributions of small business, small farm, and home mortgage loans among geographies of different incomes;
- Excellent levels of lending to small businesses and small farms;
- Poor distributions of home mortgage loans among borrowers of different incomes;
- Substantial support to a business development center through community development services; and,
- Reasonable levels of community development loans, investments, and services that helped meet community development needs.

## INSTITUTION

### *Description of Institution*

Bank of Whitman (BOW), with \$795.0 million in assets as of June 30, 2009, is a community bank headquartered in the eastern Washington city of Colfax. It is wholly-owned by Whitman Bancorporation, a single bank holding company, which is approximately 52.0 percent owned by Bank of Whitman's Employee Stock Option Program. BOW currently operates 20 full-service branches in eastern Washington in the cities of Clarkson, Colfax, Endicott, Kennewick, LaCrosse, Lind, Mattawa, Othello, Pasco, Pomeroy, Pullman, Ritzville, Rosalia, Royal City, Spokane (3 branches), Walla Walla, Warden, and Washtucna. Since the previous examination as of November 5, 2007, the bank opened two branches, (one Spokane and one in Royal City) and closed two branches, (one in Spokane and one in Royal City).

BOW is primarily a commercial and agricultural lender, but also provides a full range of banking services to business professionals and individuals. Commercial and agricultural products include real estate loans, operating lines of credit, equipment loans, construction loans, Farm Service Agency loans, Business and Industry Loans, and Small Business Administration Loans. Consumer products include auto loans, construction loans, lines of credit, credit cards, and home mortgage loans for purchase, refinance, and home improvement.

Below is the June 30, 2009, loan portfolio as stated in the Consolidated Reports of Condition and Income, which shows BOW's commercial and agricultural focus.

EXHIBIT 1		
LOANS AND LEASES AS OF JUNE 30, 2009		
Loan Type	\$ ('000s)	%
Commercial/Industrial & Non-Farm Non-Residential Real Estate	338,314	50.2
Construction & Land Development	155,311	23.0
Agricultural Production and Farm Land	121,860	18.1
Secured by 1-4 Family Residential Real Estate	26,366	3.9
All Other	25,776	3.8
Consumer Loans & Credit Cards	6,414	1.0
<b>Total (Gross)</b>	<b>674,041</b>	<b>100.0</b>

BOW's assessment areas remain unchanged since the previous examination and are comprised of the following:

- **Non-Metropolitan**, which consists of Adams, Columbia, Garfield, Grant, Lincoln, Walla Walla, and Whitman counties in their entirety;
- **Benton-Franklin**, which consists of Benton and Franklin counties in their entirety, and also comprises the Kennewick-Richland-Pasco MSA;
- **Spokane**, which consists of Spokane County in its entirety, and also comprises the Spokane MSA;

- **Asotin**, which consists of Asotin County in its entirety, and is part of the Lewiston, Idaho-Washington MSA, a multistate MSA. The Asotin assessment area does not cross state lines and is located within the Washington state border.

The bank's primary market remains the Non-Metropolitan assessment area, where 14 of its 20 branches are located. The Spokane assessment area contains three branches, the Benton-Franklin assessment area contains two branches, and the Asotin assessment area has one branch.

BOW faces no legal or financial impediments that would prevent it from helping to meet the community credit needs of its assessment areas consistent with its business strategy, size, financial capacity, and local economic conditions. The bank received a satisfactory rating at its previous Community Reinvestment Act (CRA) examination conducted as of November 5, 2007.

## ***Scope of Examination***

The CRA examination of BOW was conducted using the Interagency Intermediate Small Institution CRA Examination Procedures. Performance for intermediate small banks is evaluated under two tests that consider the bank's lending and community development activities. The Non-Metropolitan, Benton-Franklin, and Spokane assessment areas all received full-scope reviews. The Non-Metropolitan assessment area was weighted the most heavily due to the predominance of BOW branches and banking activities in that market area. The Benton-Franklin assessment area received the second highest weight because of BOW's tenure in the market and level of commercial and agricultural lending. The Spokane assessment area was weighted third. The Asotin assessment area received a limited review given the limited presence and low level of banking activity in that market. Limited scope reviews are conducted to determine whether or not performance was consistent with the bank's overall performance.

### **LENDING TEST**

The lending test portion of the evaluation was based on the following performance criteria:

- Loan volume compared to deposits (Loan-to-Deposit Ratio);
- Lending inside versus outside of the assessment area (Lending in the Assessment Area);
- Dispersion of lending throughout the assessment area (Lending Distribution by Geography); and,
- Lending to businesses and farms of different sizes and borrowers of different income levels (Lending Distribution by Business or Farm Revenue or by Borrower Income).

Responsiveness to consumer complaints was not evaluated as the bank did not receive any CRA-related complaints during the review period.

The lending test evaluation was based on small business, small farm, home purchase, and home refinance loans originated within the assessment areas between July 1, 2007 and June 30, 2009. A total of 736 small business loans, 638 small farm loans, 89 home purchase, and 167 home refinance loans were used in the evaluation of Lending within the bank's Assessment Area. Of those totals, all 73 home purchase and 139 home refinance loans and a sample of 120 small business and 85 small farm loans made within the assessment area were used to evaluate lending

distributions by geography and by business or farm revenue or borrower income. There were insufficient volumes of home improvement loans for a meaningful analysis and the product was excluded from the analysis.

Products were weighed according to volume, credit needs, and bank lending activity in each assessment area. The lending test performance was based on the following loan types:

- Small business loans;
- Small farm loans (Non-Metropolitan and Benton-Franklin assessment areas);
- Home purchase loans (Non-Metropolitan assessment area only); and,
- Home refinance loans (Non-Metropolitan and Spokane assessment areas).

Consistent with BOW's focus on commercial and agricultural lending, the evaluation placed the greatest weight on small business lending, then small farm lending, followed by home refinance and home purchase. Certain loan types were excluded from some assessment areas due to low volumes; small farm loans were excluded from the Spokane evaluation, home purchase loans were excluded from the Spokane and Benton-Franklin evaluations, and home refinance loans were excluded from the Benton-Franklin evaluation.

#### **COMMUNITY DEVELOPMENT TEST**

The community development test included an evaluation of the bank's level of community development activities in relation to local credit needs and opportunities as well as the bank's capacity to participate in such activities. The evaluation considered qualified community development loans, investments, and services from the time period July 1, 2007 to June 30, 2009.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

The overall assessments for the lending and community development tests are discussed below. These assessments are based on performance context information for each area, and the factors discussed in the preceding scope section. Additional facts and data supporting the overall conclusions are contained in the separate assessment area sections.

### ***Lending Test***

The bank's overall performance under the lending test is satisfactory. The loan-to-deposit ratio and level of lending with the assessment areas indicate the bank is effectively engaging in lending activities within its defined markets. The overall lending distributions by geography and by business and farm revenue and borrower income were reasonable, with strong performance in lending to small businesses and small farms.

#### **LOAN-TO-DEPOSIT RATIO**

The bank's eight-quarter average loan-to-deposit ratio, at 110.0 percent as of June 30, 2009, is reasonable.

#### **LENDING IN ASSESSMENT AREA**

A substantial majority of loans were originated inside the bank's assessment areas. As shown in Exhibit 2, the bank extended approximately 85.0 percent by number and 81.0 percent by dollar volume within its assessment areas.

EXHIBIT 2								
<b>LENDING INSIDE AND OUTSIDE THE ASSESSMENT AREAS</b>								
<b>JULY 1, 2007 TO JUNE 30, 2009</b>								
<b>Loan Type</b>	<b>Inside</b>				<b>Outside</b>			
	<b>#</b>	<b>%</b>	<b>\$ ('000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$ ('000s)</b>	<b>%</b>
HMDA Home Purchase	73	82.0	12,319	58.1	16	18.0	8,872	41.9
HMDA Refinance	139	83.2	51,617	83.0	28	16.8	10,578	17.0
HMDA Home Improvement	11	78.6	1,451	77.3	3	21.4	425	22.7
Total HMDA-Related	223	82.6	65,387	76.7	47	17.4	19,875	23.3
Small Farm	555	87.0	86,913	87.2	83	13.0	12,805	12.8
Small Business	615	83.5	118,435	80.1	121	16.4	29,400	19.9
Total Business-Related	1,170	85.2	205,348	82.9	204	14.9	42,205	17.1
<b>Total Loans</b>	<b>1,393</b>	<b>84.7</b>	<b>270,735</b>	<b>81.4</b>	<b>251</b>	<b>15.3</b>	<b>62,080</b>	<b>18.7</b>

## **GEOGRAPHIC AND BORROWER DISTRIBUTION**

Overall, BOW had reasonable geographic and borrower distributions. Loans were generally distributed throughout the assessment areas with no conspicuous gaps in the lending patterns. The lending was generally consistent with the concentrations of small businesses and small farms and owner-occupied housing units as well as aggregate lending levels. Particular strength was noted in lending to small businesses and small farms. However, areas of weakness were noted in reaching low- and moderate-income borrowers.

## **RESPONSE TO COMPLAINTS**

There were no complaints related to CRA during the review period. Accordingly, the bank's performance in responding to complaints was not considered in evaluating its overall CRA performance.

## ***Community Development Test***

BOW's overall community development test performance is satisfactory. Overall, retail banking services are a strength in the bank's community development record. The branch network provides critical banking services to many remote, agriculturally-based and underserved communities that have few banking facilities. For some of these communities, the bank is the sole banking facility. Throughout its assessment area, of its 20 branches, 15 are located in census tracts designated as moderate, distressed, or underserved.

In addition to strong performance in providing retail banking services, the bank also engaged in community development activities consistent with its financial capacity and the community development needs and opportunities within its assessment area. These activities helped create affordable housing units for low- and moderate-income families and individuals including much needed housing for agricultural workers; revitalized and stabilized moderate-income, distressed, and underserved census tracts by helping to retain local jobs; fostered economic development by financing small businesses and farms; granted funding and community development service hours to non-profits that provide essential community services, and provided personal financial education to students from low- and moderate-income families. In addition, significant support was provided to a business development center. While there was no community development activity in Asotin, where the bank has a very small presence and little banking activity, performance in the other assessment areas compensated for the lack of activity there.



<b>EXHIBIT 3</b>				
<b>COMMUNITY DEVELOPMENT ACTIVITIES</b>				
<b>Assessment Area</b>	<b>Loans (\$ 000)</b>	<b>Investments</b>		<b>Service Hours</b>
		<b>Prior Period (\$)</b>	<b>Current Period (\$000)</b>	
Non-Metro	2,286	0	0	197
Benton-Franklin	1,145	0	3	88
Spokane	1,505	732	14	755
Asotin	0	0	0	0
Broader Statewide or Regional Area	0	1,812	428	0
<b>Total</b>	<b>4,936</b>	<b>2,544</b>	<b>445</b>	<b>1,040</b>

As illustrated in Exhibit 3, the bank engaged in a variety of community development activities throughout its assessment areas. In addition to assessment area specific activities, the bank also engaged in a number of activities that benefited its assessment areas or a broader statewide or regional area that included its assessment areas. Highlights of these activities include:

- A \$1.0 million prior-period investment in a CRA fund that invests in community development activities throughout the state of Washington. For the current review period, the fund invested in mortgage backed securities backed by 18 loans to low- and moderate-income borrowers. Loan amounts ranged in dollar amount from \$30,000 to \$170,000 and borrower income ranged from 26.0 percent to 78.0 percent of area median income.
- A \$812,000 prior period investment in mortgaged back securities backed by 11 loans to low-income borrowers. Loan amounts ranged from \$67,000 to \$163,000 and borrower incomes ranged from \$17,000 to \$45,000, which were all below 80.0 percent of the area median income.
- Over \$428,000 in donations to a local non-profit involved in funding a variety of community development activities within eastern Washington and Northern Idaho. These activities include development of affordable housing targeted to low- and moderate-income families, food banks, and a number of non-profit organizations providing community services to low- and moderate and homeless individuals and families. This included \$400,000 of an in-kind donation of office rental space within a prime down-town location in Spokane.

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

The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations. The fair lending review conducted concurrently with this examination did not reveal evidence of discriminatory or any other illegal credit practices that would negatively impact the CRA performance.

## FULL-SCOPE ASSESSMENT AREA CONCLUSIONS

*For each assessment area where a full-scope review was performed using the examination procedures.*

### **Non-Metropolitan Assessment Area**

#### **DESCRIPTION OF OPERATIONS IN NON-METROPOLITAN ASSESSMENT AREA**

The Non-Metropolitan Assessment Area consists of Adams, Columbia, Garfield, Grant, Lincoln, Walla, Walla, and Whitman counties in their entirety. Located in the south-eastern portion of the state, this area is bordered by the Spokane assessment area to the northeast, the Benton-Franklin assessment area to the southwest, and the Asotin assessment area to the southeast. The assessment area consists of large, sparsely populated census tracts that are geographically diverse, varying from rich and fertile valleys and flat lands, gentle rolling hills, and grassy plains, to rugged, heavily forested mountains.<sup>1</sup> Land mass for the assessment area totals 11,901 square miles with a population of 202,200. According to data from Washington State Employment Security Department, the assessment area comprises 18.0 percent of the state's land mass, but only 0.03 percent of the state's total population.

BOW has a strong presence in this competitive assessment area with 14 branches. As of June 30, 2009, BOW held \$545.0 million in deposits, representing 15.5 percent of the market share and ranking second, out of 17 Federal Deposit Insurance Corporation (FDIC)-insured financial institutions operating 97 offices with over \$3.5 billion in total deposits. Primary competitors include two large regional and national banks that collectively held 28.7 percent of the deposit market share and together held deposits of \$1.0 billion.<sup>2</sup> In 2009, there were 46 lenders reporting small business loans and 28 lenders reporting small farm loans, pursuant to the reporting requirements of the CRA, most of which were large regional and national institutions. These lenders, which represent only a portion of the commercial and agricultural lending market, extended 6,097 small business loans totaling \$181.0 million and 1,088 small farm loans totaling \$142.0 million.

The following exhibit presents key demographic and business information used to help develop a performance context for the assessment area.

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<sup>1</sup> Workforce EXPLORER-Washington, June 2004, (accessed November 17, 2009); available from <http://www.workforceexplorer.com/article.asp?articleId=2859&PAGEID=&SUBID=>  
<http://www.workforceexplorer.com/article.asp?articleId=2774&PAGEID=&SUBID=>  
<http://www.workforceexplorer.com/article.asp?articleId=2773&PAGEID=&SUBID=>  
<http://www.workforceexplorer.com/article.asp?articleId=2775&PAGEID=&SUBID=>  
<http://www.workforceexplorer.com/article.asp?articleId=2795&PAGEID=&SUBID=>  
[http://www.workforceexplorer.com/article.asp?articleId=2794&PAGEID=&SUBID=.](http://www.workforceexplorer.com/article.asp?articleId=2794&PAGEID=&SUBID=)

<sup>2</sup> Federal Deposit Insurance Corporation, Institution Directory, *Summary of Deposits*, June 30, 2009; available from <http://www2.fdic.gov/sod/>.

EXHIBIT 4								
ASSESSMENT AREA DEMOGRAPHICS								
NON-METROPOLITAN ASSESSMENT AREA								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	2	4.3	822	1.7	287	34.9	10,148	20.6
Moderate-income	8	17.0	8,397	17.1	1,769	21.1	9,218	18.7
Middle-income	30	63.8	31,743	64.5	3,105	9.8	10,955	22.3
Upper-income	7	14.9	8,251	16.8	544	6.6	18,892	38.4
<i>Total AA</i>	<i>47</i>	<i>100.0</i>	<i>49,213</i>	<i>100.0</i>	<i>5,705</i>	<i>11.6</i>	<i>49,213</i>	<i>100.0</i>
Income Categories	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied			Rental		Vacant	
		#	%-tract	%-units	#	%	#	%
Low-income	2,946	139	0.3	4.7	2,634	89.4	173	5.9
Moderate-income	14,097	6,273	13.8	44.5	6,159	43.7	1,665	11.8
Middle-income	51,311	31,073	68.2	60.6	13,714	26.7	6,524	12.7
Upper-income	12,927	8,099	17.8	62.7	4,071	31.5	757	5.9
<i>Total AA</i>	<i>81,281</i>	<i>45,584</i>	<i>100.0</i>	<i>56.1</i>	<i>26,578</i>	<i>32.7</i>	<i>9,119</i>	<i>11.2</i>
Income Categories	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	115	1.4	98	1.3	11	2.3	6	2.3
Moderate-income	1,400	17.2	1,233	16.6	112	23.0	55	21.2
Middle-income	5,168	63.4	4,716	63.6	285	58.6	167	64.2
Upper-income	1,474	18.1	1,364	18.4	78	16.0	32	12.3
<i>Total AA</i>	<i>8,157</i>	<i>100.0</i>	<i>7,411</i>	<i>100.0</i>	<i>486</i>	<i>100.0</i>	<i>260</i>	<i>100.0</i>
<b>Percentage of Total Businesses</b>		90.9		6.0		3.2		
Income Categories	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	9	0.5	8	0.4	1	1.3	0	0.0
Moderate-income	214	11.0	191	10.3	23	29.1	0	0.0
Middle-income	1,574	81.3	1,520	81.8	54	68.4	0	0.0
Upper-income	140	7.2	139	7.5	1	1.3	0	0.0
<i>Total AA</i>	<i>1,937</i>	<i>100.0</i>	<i>1,858</i>	<i>100.0</i>	<i>79</i>	<i>100.0</i>	<i>0</i>	<i>0.0</i>
<b>Percentage of Total Farms</b>		95.9		4.1		0.0		
2004 Median Family Income Non-Metro Areas of the State of Washington		\$42,367		June 2009 Median Housing Value <sup>3</sup>		Adams \$122,700 Columbia \$110,000 Garfield \$155,200 Grant \$161,700 Lincoln Not Available Walla Walla \$175,000 Whitman \$207,900		
2009 HUD Adjusted Median Family Income Non-Metro Areas of the State of Washington		\$54,500		June 2009 Unemployment Rate <sup>4</sup>		Adams 7.8% Columbia 10.9% Garfield 6.3% Grant 9.0% Lincoln 8.3% Walla Walla 6.5% Whitman 5.5%		

<sup>3</sup> Median Home Prices, available from <http://www.wcrer.wsu.edu/WSHM/2009Q2/MHP-Time%20Trend.pdf> (accessed on 1/6/2010).

<sup>4</sup> Adams=7.8%, Columbia=10.9%, Garfield=6.3%, Grant=9.0%, Lincoln=8.3%, Walla Walla=6.5%, Whitman=5.5%. Bureau of Labor Statistics (Haver Analytics), available from <http://www2.fdic.gov/recon>.

The assessment area's economy is based primarily on agriculture with several of the counties being large producers of wheat.<sup>5</sup> Nationally, for 2008 Washington ranked sixth in terms of wheat production, bringing in \$974.5 million in revenue to the state.<sup>6</sup> Other crops include, corn, green peas, apples, potatoes, and hay, which are produced mainly in Grant County.<sup>7</sup> The heavy agricultural make-up of the assessment area economy is more prone to seasonal variations than business cycles; as such, the assessment area was somewhat insulated from the effects of the national recession.<sup>8</sup> According to data from the United States Department of Agriculture 2007 and 2008 were record years for value of crop production compared to 2006 figures. In 2007 and 2008 the value of agricultural sector production for the state of Washington was over \$8.0 billion and \$8.9 billion, respectively compared to \$6.8 billion for 2006.<sup>9</sup>

The most diverse economy is in Walla Walla, blending agriculture, food processing, wine, higher education, and government.<sup>10</sup> Throughout the assessment area, efforts to diversify the economic base are underway. Grant County, the most heavily populated, has been successful in attracting software publishing companies such as Microsoft, Yahoo, and Intuit.<sup>11</sup> Likewise, Columbia and Lincoln counties have also undertaken initiatives to diversify into tourism, wind farms, custom food manufacturing,<sup>12</sup> and bio-diesel fuel operations.<sup>13</sup> In addition, small businesses are an important component to the local economy as businesses with annual revenues of \$1.0 million or less comprise 90.9 percent of all businesses within the assessment area.

During most of the review period, Washington State had been able to withstand the effects of the collapse of the subprime mortgage market, in part because home values and sales held up longer than in other regions.<sup>14</sup> According to data from the Washington Center for Real Estate Research (WCRER), home values within the assessment area actually increased from 2007 to 2008. However, decreases were noted during the first quarter of 2009. In addition, the level of serious delinquency and foreclosure activity increased rapidly during the first quarter of 2009, but Washington state statistics remain well below national averages. According to data from the

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<sup>5</sup> Workforce EXPLORER-Washington, County Profiles, (accessed November 16, 2009); available from <http://www.workforceexplorer.com/article.asp?SUBID=&ARTICLEID=1688>.

<sup>6</sup> *Washington Wheat Facts 2008-2009*, (accessed November 18, 2009); available from <http://admin.aghost.net/images/E0177801/2008WF4WebSmHomepage.pdf>.

<sup>7</sup> T. Baba Moussa. (October 2, 2009). Grant County Profile. *Workforce EXPLORER-Washington*. (accessed November 16, 2009); available from <http://www.workforceexplorer.com/article.asp?ARTICLEID=9988>.

<sup>8</sup> Jami Mills, ETAL. (December 2008). 2008 Washington State Labor Market and Economic Report. *Workforce EXPLORER-Washington*. (accessed November 16, 2009); available from [http://www.workforceexplorer.com/admin/uploadedPublications/9416\\_2008\\_annual\\_ReportWEX.pdf](http://www.workforceexplorer.com/admin/uploadedPublications/9416_2008_annual_ReportWEX.pdf).

<sup>9</sup> USDA, Data and Statistics, *Table – Washington, 2000 – 2008*, (accessed November 20, 2009); available from <http://www.ers.usda.gov/Data/FarmIncome/FinfidmuXls.htm>.

<sup>10</sup> Dean Schau. (September 27, 2007). Walla Walla County Profile. *Workforce EXPLORER-Washington*. (accessed November 16, 2009); available from <http://www.workforceexplorer.com/article.asp?articleId=8489&PAGEID=&SUBID=>.

<sup>11</sup> T. Baba Moussa. (October 2, 2009). Grant County Profile. *Workforce EXPLORER-Washington*. (accessed November 16, 2009); available from <http://www.workforceexplorer.com/article.asp?ARTICLEID=9988>.

<sup>12</sup> Arum Kone. (March 10, 2009). Columbia County Profile. *Workforce EXPLORER-Washington*, (accessed November 16, 2009); available from <http://www.workforceexplorer.com/article.asp?articleId=9549&PAGEID=&SUBID=>.

<sup>13</sup> *Lincoln County Profile* (accessed November 16, 2009); available from <http://www.workforceexplorer.com/article.asp?PAGEID=&SUBID=&ARTICLEID=9228>.

<sup>14</sup> *Washington State's Housing Market: A Supply/Demand Assessment, 4<sup>th</sup> Quarter 2008*, (accessed November 20, 2009); available from <http://www.wcrer.wsu.edu/WSHM/2008Q4/MKTRPT08d.pdf>.

Mortgage Brokers Association, 7.97 percent of mortgages nationwide are at least 90 days in arrears, with 4.30 percent at some point in the foreclosure process. Statistics for the state of Washington indicate roughly half national percentages with a serious delinquency rate of 4.72 percent and a foreclosure process rate of 2.47 percent, indicating a bright spot within the nation.<sup>15</sup>

Housing affordability within the assessment area for middle-income families appears to be achievable. According to second quarter 2009 data from WCRER, all counties within the assessment area indicate an affordability index of over 100, ranging from a low of 132 in Whitman County to a high of 222 in Columbia County. An index of 100 indicates that a middle-income family has sufficient income to purchase a median priced home, assuming a 20.0 percent down payment and a 30-year mortgage at prevailing mortgage interest rates. An index greater than 100 indicates that the family has more income than they need for a median priced home. Affordability indexes for all counties within the assessment area were well above the state index of 123.

Housing affordability for low- and moderate-income families, however, is more difficult. As an example, a low-income individual earning 50.0 percent of median income may be able to qualify for a 30-year fixed rate mortgage of up to \$87,500 with an interest rate of 4.0 percent.<sup>16</sup> However, as noted in Exhibit 4, median housing prices within the assessment area range from \$110,000 to \$207,900, making home-ownership out of reach for low-income individuals. Using the same assumptions, moderate-income individuals could afford homes up to \$181,655, which prices them out of median priced homes in Whitman County. Home purchase affordability is possible for moderate-income home buyers in other counties within the assessment area, but raising sufficient down-payment is often difficult.

Overall conditions within the assessment area, particularly in middle-income census tracts have declined during the review period. Data obtained from the Federal Financial Institutions Examination Council indicate that the number of census tracts designated as distressed or underserved has risen steadily. In 2007, there were 11 census tracts identified due to population loss and difficulties in meeting essential community needs. In 2008, the number rose to 15, for the same reasons as in 2007, but with the added component of over 20.0 percent of the population identified as being in poverty. By 2009, the number of census tracts designated as distressed or underserved rose to 24. The increases were caused by the addition of census tracts within Whitman County from 2007 to 2008 and census tracts from Grant County from 2008 to 2009. Both counties were added due to increasing levels of poverty in spite of record values of agricultural crops.

The declining economic conditions during the review period resulted in financial institutions tightening their lending standards and terms on all major loan products. The move toward more stringent lending policies was a trend throughout 2008, but eased measurably by 2009. For example, according to the October 2009 Senior Loan Officer Opinion Survey on Bank Lending Practices conducted by the Federal Reserve Board of Governors, domestic banks indicated that

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<sup>15</sup> *Washington State's Housing Market: A Supply/Demand Assessment, 2<sup>th</sup> Quarter 2009*, (accessed November 20, 2009); available from <http://www.wcrer.wsu.edu/MarketData.html>.

<sup>16</sup> Based on CNNs Housing Affordability Calculator available from: <http://cgi.money.cnn.com/tools/houseafford/houseafford.html>.

they continued to tighten standards and terms on all major credit types, however, the net percentages of banks that tightened standards and terms for most loan categories continued to decline from the peaks reached in late 2008. The exception to this declining trend were in prime residential mortgages and revolving home equity lines of credit, for which there was little change from previous surveys. The survey also indicated that the demand for most major categories of loans at domestic banks continued to weaken. With regard to commercial and industrial loans, the two sources of the decline in demand were decreases in the need to finance investment in plant and equipment, inventories, accounts receivable, and merger and acquisition activity.

This information was confirmed at the local level through community contacts where loan demand from small businesses and small farms declined since the previous examination. The lack of demand stemmed from businesses and farms having deteriorating balance sheets and thus not being in a position to qualify for increasingly tight lending standards. Those small farms and small businesses that could, funded operations in 2009 without loans or refinanced the loans already outstanding rather than taking on new debt.

Rather than new credit, local sources indicate that what is needed most is technical assistance for small businesses to help improve balance sheets and cash flow. Refinance loans with lower payments would also help in this regard. As for small farmers, since the 2009 crop was mostly paid out of pocket, sources indicate there will be a demand for crop funding for the 2010 crop. Although there were record crop values for 2007 and 2008, this did not translate to record profits for farmers because crop expenses also rose. For both small businesses and small farms, loans in small dollar amounts was a stated need. Other identified needs include housing for seasonal farm workers and affordable housing for low- and moderate-income families.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN NON-METROPOLITAN ASSESSMENT AREA**

### ***Lending Test***

Overall lending test performance in the Non-Metropolitan assessment area is satisfactory. Strength was noted in small business loans where significant levels were made to small businesses and in small amounts. Small farm loans also performed well, especially within distressed and underserved middle-income census tracts, where a majority of small farm loans were made. Weakness was noted in lending to low- and moderate-income borrowers and contextual information only partially explains the performance.

### **Lending Distribution by Geography**

#### ***Small Business Lending***

The geographic distribution of small business loans is reasonable. Low-income census tracts offered little opportunity with their low level of business concentrations; however, lending levels in moderate- and middle-income census tracts indicate the bank may be missing lending opportunities. Lending levels in moderate- and middle-income census tracts were below business concentrations and aggregate lending levels. In addition, there appears to be a disproportionately high level of lending in upper-income census tracts. Nonetheless, lending

levels in middle income census tracts is adequate in that the majority of loans were located in census tracts designated as distressed or underserved. Of the 116 loans in middle-income census tracts, 87.0 or 75.0 percent, were made in distressed or underserved census tracts. As such, performance in distressed or underserved middle-income census tracts helped compensate for the low level of lending in moderate-income census tracts, supporting an overall reasonable geographic distribution of small business loans.

<b>EXHIBIT 5</b>			
<b>GEOGRAPHIC DISTRIBUTION OF SMALL BUSINESS LOANS</b>			
<b>Census Tract Income Category</b>	<b>Bank Lending (%)</b>	<b>Business Concentration (%)</b>	<b>Aggregate Lending (%)</b>
Low	0	1.4	1.9
Moderate	11.9	17.2	14.8
Middle	42.9	63.3	62.1
Upper	45.2	18.1	21.2

*Small Farm Lending*

The geographic distribution of small farm loans is reasonable. The distribution of small farm loans is generally consistent with the concentration of small farms. Strong performance is noted in middle-income census tracts which exceeded both the concentration of small farms and aggregate lending. Such lending is notable given the majority of these loans were located in distressed and/or underserved middle-income census tracts. Of the 92 loans in middle-income census tracts, 59.0 percent were located in distressed or underserved census tracts. Low-income census tracts offered limited opportunity as the small farm concentration was less than one percent. Performance in moderate-income census tracts is below both the concentration of small farms and aggregate lending; however, lending in distressed and underserved middle-income census tracts helped compensate for performance in moderate-income census tracts. Loans were well distributed among the rural and remote areas within the assessment area with no conspicuous lending gaps.

<b>EXHIBIT 6</b>			
<b>GEOGRAPHIC DISTRIBUTION OF SMALL FARM LOANS</b>			
<b>Census Tract Income Category</b>	<b>Bank Lending (%)</b>	<b>Small Farm Concentration (%)</b>	<b>Aggregate Lending (%)</b>
Low	0	0.5	0.3
Moderate	4.5	11.0	10.7
Middle	84.4	81.3	80.5
Upper	11.1	7.2	8.5

*Home Mortgage Loans*

The geographic distributions of home purchase and refinance loans are reasonable. Lending distributions generally followed the concentrations of owner occupied units and aggregate lending, with stronger performance in mortgage refinance loans. Refinance lending performance was notably strong within low- and middle-income census tracts compared to aggregate lending and owner occupied units. While there were no home purchase loans in low-income census tracts, those tracts offered limited opportunity as concentrations of owner-occupied housing was less than one percent. Home purchase lending in moderate-income census tracts was comparable to owner occupied units and aggregate lending. Loans generally clustered near the bank's branches with no conspicuous gaps.

EXHIBIT 7			
GEOGRAPHIC DISTRIBUTION OF HOME PURCHASE LOANS			
Census Tract Income Category	Bank Lending (%)	Owner Occupied Units (%)	Aggregate Lending (%)
Low	0	0.3	1.1
Moderate	12.2	13.7	12.2
Middle	43.9	68.2	62.0
Upper	43.9	17.8	24.7

EXHIBIT 8			
GEOGRAPHIC DISTRIBUTION OF HOME MORTGAGE REFINANCE LOANS			
Census Tract Income Category	Bank Lending (%)	Owner Occupied Units (%)	Aggregate Lending (%)
Low	2.6	0.3	0.7
Moderate	9.2	13.7	12.3
Middle	67.1	68.2	65.0
Upper	21.1	17.8	22.0

Lending Distribution by Borrower Income and Business Revenue

*Small Business Loans*

Lending distribution of small business loans demonstrated excellent penetration among businesses of different sizes with substantial levels granted to small businesses. While levels were below the concentration of small businesses, they were more than double aggregate lending levels. In addition, a large percentage of small business loans were made in small amounts, thus meeting an identified credit need within the community.



EXHIBIT 9						
BUSINESS REVENUE DISTRIBUTION OF SMALL BUSINESS LOANS						
Businesses with Revenue <= \$1 Million		Originations Regardless of Revenue Size by Loan Amount			Aggregate Lending	
Bank Lending (%)	All Businesses (%)	<=\$100K (%)	> \$100K and <=\$250K (%)	> \$250K and <=\$1M (%)	All Loans	Revenue <= \$1 Million (%)
73.8	90.8	71.4	16.7	11.9	6,097	35.1

*Small Farm Loans*

Lending distributions of small farm loans demonstrated reasonable penetration among farms of different sizes with levels exceeding the aggregate and comparable to the concentration of small farms. In addition, over 90.0 percent were made in amounts under \$250 thousand, thus meeting an identified credit need among small farmers.

EXHIBIT 10						
BUSINESS REVENUE DISTRIBUTION OF SMALL FARM LOANS						
Businesses with Revenue <= \$1 Million		Originations Regardless of Revenue Size by Loan Amount			Aggregate Lending	
Bank Lending (%)	All Farms (%)	<=\$100K (%)	> \$100K and <=\$250K (%)	> \$250K and <=\$1M (%)	All Loans	Revenue <= \$1 Million (%)
86.7	95.9	46.7	44.4	8.9	1,088	78.4

*Home Mortgage Loans*

The distribution of home mortgage loans among borrowers of different incomes is poor. The penetration of low- and moderate-income borrowers falls significantly below the concentration of families and aggregate lending levels, particularly for moderate-income borrowers. Performance context information such as affordability and the location of the bank’s branches within census tracts experiencing increased poverty levels partially explain the low levels of lending to these income groups. However, aggregate lending levels indicate the bank may be missing opportunities to lend to this segment of their community. It is noted that the bank is, in some cases, the only financial institution within certain communities designated as distressed, making aggregate lending levels less relevant for comparative analysis.

<b>EXHIBIT 11</b>			
<b>HOME PURCHASE LOANS</b>			
<b>Income Level</b>	<b>Bank Lending (%)</b>	<b>Families (%)</b>	<b>Aggregate Lending (%)</b>
Low	2.6	20.6	5.4
Moderate	7.9	18.7	17.6
Middle	23.7	22.3	29.7
Upper	65.8	38.4	47.3

<b>EXHIBIT 12</b>			
<b>HOME MORTGAGE REFINANCE LOANS</b>			
<b>Income Level</b>	<b>Bank Lending (%)</b>	<b>Families (%)</b>	<b>Aggregate Lending (%)</b>
Low	2.9	20.6	4.3
Moderate	4.3	18.7	15.5
Middle	20.0	22.3	27.0
Upper	72.8	38.4	53.2

***Community Development Test***

BOW's performance under the community development test demonstrates adequate responsiveness to the community development needs of the Non-Metropolitan assessment area. Community development needs were appropriately met through reasonable levels of community development loans and services. There were limited opportunities for community development investments specific to the assessment area; however, the bank made investments that covered a broader state-wide area that directly benefitted the Non-Metropolitan assessment area.

These community development activities helped create much needed affordable and temporary housing for migrant farm workers, fostered economic development by financing small businesses and small farms, helped stabilize and revitalize certain geographies by helping to retain a sizeable number of local jobs, and provided financial expertise to local non-profit organizations that provide essential community services and scholarship funds to low- and moderate-income individuals and families as well as provided financial education to students from low- and moderate-income families.

Below are highlights of the community development activities within the Non-Metropolitan assessment area.

- \$618,741 term loan to a local housing authority for the development of a seasonally occupied farm labor housing development. The multi-family development will have 20 units with a total of 96 beds. All residents will be seasonally employed farm workers earning 30.0 percent of Department of Housing and Urban Development (HUD) area median income. Local sources and public data indicate farm worker housing is a critical need within this agriculturally-based community.
- \$650,000 working capital loan to fund the operations of a farm labor contracting business located in a middle-income census tract that has been designated as distressed due to

poverty and population loss. This loan helped to stabilize this distressed area by retaining at least 250 jobs within the farming industry.

- \$150,000 loan to fund improvements at a local grocery store in a middle-income distressed and underserved census tract. The facility is the only grocery store for 30 miles in an area that has suffered from population loss and lacks essential community services due to its remote location.
- 120 service hours were provided to a non-profit organization that provides financial support to high school graduates in pursuit of higher education. The students are from a high school located in a distressed and underserved census tract where 52.0 percent are on the free or reduced-price lunch program.
- 36 service hours were provided to a local food bank that provides food for the homeless and low- and moderate-income families.
- 13 service hours were provided to local schools where 76.0 percent of the students are on the free or reduced-price lunch program. The students were provided with personal financial education.

## ***Benton-Franklin***

### **DESCRIPTION OF OPERATIONS IN BENTON-FRANKLIN**

The Benton-Franklin assessment area consists of Benton and Franklin counties in their entirety, which also represents the entire Kennewick-Richland-Pasco MSA and is also known as the Tri-Cities. Located in south central Washington, these counties combined occupy a total of 2,945 square miles and have a population of 230,300.<sup>17</sup> The north is boarded by Grant and Adams counties. The western boarder adjoins Yakama and Klickitat counties. The eastern side faces Whitman, Columbia, and Walla Walla counties. Elevations run from about 300 feet above sea level at the lower points to over 3,000 feet in the higher reaches of the Rattlesnake Hills in Benton County. The terrain is generally basin and valley bottom land with upland plateaus.<sup>18</sup>

BOW has a comparatively limited presence in this fairly competitive assessment area with two branches. As of June 30, 2009, BOW held \$63.0 million in deposits, representing 2.9 percent of the market share and ranking 12th out of 16 FDIC-insured financial institutions operating 57 offices with over \$2.0 billion in total deposits. Primary competitors include three large regional and national banks that collectively held 46.6 percent of the deposit market share and together held deposits of \$1.0 billion.<sup>19</sup> In 2009, there were 41 lenders reporting small business loans and 19 lenders reporting small farm loans, pursuant to the CRA, most of which were large regional and national institutions. These lenders, which represent only a portion of the lending market, extended 6,826 small business loans totaling \$202.0 million and 257 small farm loans totaling \$29.0 million.

The following exhibit presents key demographic and business information used to help develop a performance context for the assessment area.

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<sup>17</sup> *Population in State of Washington*, (accessed January 26, 2010); available from <http://www.workforceexplorer.com/cgi/databrowsing/localAreaProfileQSMOREResult.asp?menuChoice=localAreaPr&criteria=Population&categoryType=population+census+data&geogArea=5304000005&more=More+Areas>.

<sup>18</sup> *Benton County Geography*, (accessed November 17, 2009); available from <http://www.workforceexplorer.com/article.asp?articleId=2863&PAGEID=&SUBID=>.

<sup>19</sup> Federal Deposit Insurance Corporation, Institution Directory, *Summary of Deposits*, June 30, 2009; available from <http://www2.fdic.gov/sod/>.

EXHIBIT 13								
ASSESSMENT AREA DEMOGRAPHICS								
BENTON-FRANKLIN ASSESSMENT AREA								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	2	5.4	2,829	5.7	878	31.0	10,002	20.1
Moderate-income	7	18.9	7,965	16.0	1,503	18.9	9,103	18.3
Middle-income	21	56.8	26,510	53.2	2,032	7.7	10,833	21.8
Upper-income	7	18.9	12,498	25.1	362	2.9	19,864	39.9
<i>Total AA</i>	<i>37</i>	<i>100.0</i>	<i>49,802</i>	<i>100.0</i>	<i>4,775</i>	<i>9.6</i>	<i>49,802</i>	<i>100.0</i>
Income Categories	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied			Rental		Vacant	
		#	%-tract	%-units	#	%	#	%
Low-income	4,641	1,358	2.9	29.3	2,873	61.9	410	8.8
Moderate-income	12,100	6,031	13.1	49.8	5,015	41.4	1,054	8.7
Middle-income	38,827	25,409	55.1	65.4	11,051	28.5	2,367	6.1
Upper-income	16,479	13,307	28.9	80.8	2,662	16.2	510	3.1
<i>Total AA</i>	<i>72,047</i>	<i>46,105</i>	<i>100.0</i>	<i>64.0</i>	<i>21,601</i>	<i>30.0</i>	<i>4,341</i>	<i>6.0</i>
Income Categories	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	354	4.5	322	4.5	21	3.8	11	5.6
Moderate-income	1,745	22.0	1,497	20.8	192	34.7	56	28.7
Middle-income	3,818	48.1	3,508	48.8	215	38.9	95	48.7
Upper-income	2,022	25.5	1,864	25.9	125	22.6	33	16.9
<i>Total AA</i>	<i>7,939</i>	<i>100.0</i>	<i>7,191</i>	<i>100.0</i>	<i>553</i>	<i>100.0</i>	<i>195</i>	<i>100.0</i>
<b>Percentage of Total Businesses</b>		90.6		7.0		2.5		
Income Categories	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	3	0.5	2	0.3	1	1.6	0	0.0
Moderate-income	147	22.6	126	21.4	21	34.4	0	0.0
Middle-income	440	67.6	404	68.5	36	59.0	0	0.0
Upper-income	61	9.4	58	9.8	3	4.9	0	0.0
<i>Total AA</i>	<i>651</i>	<i>100.0</i>	<i>590</i>	<i>100.0</i>	<i>61</i>	<i>100.0</i>	<i>0</i>	<i>100.0</i>
<b>Percentage of Total Farms</b>		90.6		9.4		0.0		
2004 MSA Median Family Income		\$51,319		June 2009 Median Housing Value <sup>20</sup> Benton Franklin		\$164,000		
2009 HUD Adjusted Median Family Income		\$64,800		June 2009 Unemployment Rate <sup>21</sup>		7.1%		

<sup>20</sup> Median Home Prices, available from <http://www.wcrer.wsu.edu/WSHM/2009Q2/MHP-Time%20Trend.pdf> (accessed on January 6, 2010).

<sup>21</sup> Bureau of Labor Statistics (Haver Analytics), available from <http://www2.fdic.gov/recon>.

The Benton-Franklin economy has fairly limited industrial diversity. Besides a large government workforce, leading industries by employment are concentrated in agriculture and food manufacturing, scientific research and development, and remediation and other waste management services.<sup>22</sup> Major crops include wheat and row crops, grapes, and fruit trees, which attract seasonal farm workers.<sup>23</sup> The assessment area is home to the Hanford Project, which was once part of the Manhattan Project from World War II. At that time, the Hanford Project was the first full-scale plutonium production reactor in the world. During the Cold War, the project was expanded to include nine nuclear reactors. Today the area is the site of the largest nuclear clean-up project in the nation<sup>24</sup> and home to major research laboratories.<sup>25</sup> Engineering and scientific research positions at these facilities are a big draw to the area for young, well educated workers.<sup>26</sup> Local small businesses are also a major driver of the economy as they make up over 90.0 percent of all businesses.

During the review period, the Benton-Franklin economy experienced volatility,<sup>27</sup> with rapid expansion at the beginning of the review period and ending in a mild recession by June 2009.<sup>28</sup> The rapid expansion in 2007 was mainly fueled by a biotech company moving into the area and the addition of over 1,000 new jobs at the Hanford site. The food manufacturing industry also contributed to the 2007 expansion by adding jobs at the Tyson beef plant and at ConAgra, a convenience food manufacturer.<sup>29</sup> By August 2008, however, food manufacturing had contracted by 11.0 percent and laid off local workers in response to rising costs of corn and feedstock. This was enough to drive the jobless rate from 4.7 percent at the beginning of 2008 to 6.1 percent by mid-summer 2008.<sup>30</sup> By the end of the review period, the effects of the national recession had reached the assessment area as sectors more sensitive to cyclical pressures, such as manufacturing and leisure/hospitality experienced sizeable job losses; while not major industries, the effect was enough for the assessment area to fall into a mild recession.<sup>31</sup> On the upside, the Hanford project received \$2.0 billion in federal stimulus money through the American Recovery and Reinvestment Act. These funds double the 2009 Hanford project budget and are expected to create or save 4,000 local jobs over the next three years.<sup>32</sup>

The assessment area underwent a mild housing correction with declining residential permit activity and an increasing amount of excess supply of homes for sale.<sup>33</sup> However, the correction

<sup>22</sup> Moody's Economy.com, Précis METRO, Kennewick, April 2009.

<sup>23</sup> John Wines. (September 2009). Agricultural Labor Employment and Wages. *Workforce EXPLORER* (accessed November 16, 2009); available from [http://www.workforceexplorer.com/admin/uploadedPublications/10004\\_AgMonth\\_Sep2009.pdf](http://www.workforceexplorer.com/admin/uploadedPublications/10004_AgMonth_Sep2009.pdf).

<sup>24</sup> Moody's Economy.com, Précis METRO, Kennewick, April 2009.

<sup>25</sup> Dean Schau. (July 2007). Kennewick-Richland-Pasco MSA (Benton and Franklin) County Profile. *Workforce EXPLORER* (accessed November 16, 2009); available from <http://www.workforceexplorer.com/article.asp?ARTICLEID=8347&PAGEID=94&SUBID=>.

<sup>26</sup> Moody's Economy.com, Précis METRO, Kennewick, August 2009.

<sup>27</sup> Dean Schau. (July 2007). Kennewick-Richland-Pasco MSA (Benton and Franklin) County Profile. *Workforce EXPLORER* (accessed November 16, 2009); available from <http://www.workforceexplorer.com/article.asp?ARTICLEID=8347&PAGEID=94&SUBID=>.

<sup>28</sup> Moody's Economy.com, Précis METRO, Kennewick, August 2007 –August 2009.

<sup>29</sup> Moody's Economy.com, Précis METRO, Kennewick, December 2007.

<sup>30</sup> Moody's Economy.com, Précis METRO, Kennewick, August 2008.

<sup>31</sup> Moody's Economy.com, Précis METRO, Kennewick, August 2009.

<sup>32</sup> Moody's Economy.com, Précis METRO, Kennewick, April 2009.

<sup>33</sup> Moody's Economy.com, Précis METRO, Kennewick, December 2008.

was not nearly as pronounced as in other areas of the country, mainly because the area did not experience a housing boom, residents did not take out exotic mortgages, and the area's positive in-migration supported a healthy housing demand.<sup>34</sup> Home values have held up well during the review period with only mild declines of 1.8 percent from 2008 to 2009.<sup>35</sup>

According to the WCRER, housing is affordable for middle-income families. Data indicates affordability indexes for Benton and Franklin counties are over 100 at 190.9 percent and 152.2 percent, respectively. Affordability indexes for both counties within the assessment area were well above the state index of 123. Housing affordability for low-income families, however, is more difficult. As an example, a low-income individual earning 50.0 percent of median income may be able to qualify for a 30-year fixed rate mortgage of up to \$117,141 with an interest rate of 4.0 percent.<sup>36</sup> However, a median housing price within the assessment area of \$164,000 as noted on Exhibit 13, makes home-ownership out of reach for low-income individuals.

The declining economic conditions during the review period resulted in financial institutions tightening their lending standards and terms on all major loan products. The move toward more stringent lending policies was a trend throughout 2008, but eased measurably by 2009. For example, according to the October 2009 Senior Loan Officer Opinion Survey on Bank Lending Practices conducted by the Federal Reserve Board of Governors, domestic banks indicated that they continued to tighten standards and terms on all major credit types, however, the net percentages of banks that tightened standards and terms for most loan categories continued to decline from the peaks reached in late 2008. The exception to this declining trend were in prime residential mortgages and revolving home equity lines of credit, for which there was little change from previous surveys. The survey also indicated that the demand for most major categories of loans at domestic banks continued to weaken. With regard to commercial and industrial loans, the two sources of the decline in demand were decreases in the need to finance investment in plant and equipment, inventories, accounts receivable, and merger and acquisition activity.

Tightening of credit standards was confirmed at the local level through community contacts for both small business loans and small farm loans. At a recent meeting of agricultural lenders, banking groups indicated the requirement to increase loan reserves meant less funding available for lending. Consequently, the limited amount of loans went to the strongest small farm borrowers. While private lenders curtailed lending, government small farm lenders picked up the slack, reaching record numbers of loans made for 2008 and 2009. Credit standards for small business lenders have also tightened with small business loans increasingly more difficult to obtain. Similar to agricultural lending, small businesses with only the strongest balance sheets were able to obtain funding.

Credit needs within the community included small business financing and start-up loans. Participation in the small farm government guaranteed loan program was also needed to increase

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<sup>34</sup> Moody's Economy.com, Précis METRO, Kennewick, December 2008.

<sup>35</sup> Washington Center for Real Estate Research, Washington State University, *Median Home Prices*, 4<sup>th</sup> Quarter 2007 to 1<sup>st</sup> Quarter 2009, (accessed November 20, 2009); available from <http://www.wcrer.wsu.edu/WSHM/2009Q1/Prices-Trend.pdf>.

<sup>36</sup> Based on CNNs Housing Affordability Calculator available from: <http://cgi.money.cnn.com/tools/houseafford/houseafford.html>.

the amount of funds available to more small farm borrowers. Other critical needs include affordable housing particularly for low-income individuals and families and for seasonal farm workers.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN BENTON-FRANKLIN ASSESSMENT AREA**

*Lending Test*

Overall lending test performance in the Benton-Franklin assessment is satisfactory. Strength was noted in small business loans where significant levels were made to small businesses and in small amounts. However, the geographic distribution of small business loans was poor, with lending levels in certain types of census tracts far below business concentrations and aggregate lending levels. Small farm loans also performed well, with high levels of lending to small farms.

Lending Distribution by Geography

*Small Business Lending*

The geographic distribution of small business loans is poor. While low-income census tracts offered little opportunity with their low level of business concentrations, lending levels in moderate- and middle-income census tracts indicate the bank may be missing lending opportunities. Lending levels in moderate- and middle-income census tracts were well below business concentrations and aggregate lending levels. In addition, there appears to be a disproportionately high level of lending in upper-income census tracts. Although the bank does face competition in this market, it is not disproportionate to that in other markets where BOW’s lending levels were stronger, or in the upper-income tracts where the bank’s level of lending was particularly high. Accordingly, performance context does not adequately explain these lending patterns.

<b>EXHIBIT 14</b>			
<b>GEOGRAPHIC DISTRIBUTION OF SMALL BUSINESS LOANS</b>			
<b>Census Tract Income Category</b>	<b>Bank Lending (%)</b>	<b>Business Concentration (%)</b>	<b>Aggregate Lending (%)</b>
Low	0	4.5	2.5
Moderate	11.9	22.0	17.2
Middle	35.7	48.0	48.2
Upper	52.4	25.5	32.1



*Small Farm Lending*

The geographic distribution of small farm loans is reasonable. The distribution of small farm loans was consistent with the concentration of farms and aggregate lending levels. Small farm loans were disbursed throughout the assessment area except for one large moderate-income census tract. However, this was determined not to be a conspicuous gap because there were no farms within that census tract.

EXHIBIT 15			
GEOGRAPHIC DISTRIBUTION OF SMALL FARM LOANS			
Census Tract Income Category	Bank Lending (%)	Small Farm Concentration (%)	Aggregate Lending (%)
Low	0	0.4	1.2
Moderate	22.5	22.6	23.3
Middle	67.5	67.6	62.3
Upper	10.0	9.4	13.2

Lending Distribution by Borrower Income and Business Revenue

*Small Business Loans*

Lending distribution of small business loans demonstrated excellent penetration among businesses of different sizes with substantial levels granted to small businesses. While lending levels were below the concentration of small businesses, they were double aggregate lending levels. In addition, a large percentage of small business loans were made in small amounts, thus meeting an identified credit need within the community.

EXHIBIT 16						
BUSINESS REVENUE DISTRIBUTION OF SMALL BUSINESS LOANS						
Businesses with Revenue <= \$1 Million		Originations Regardless of Revenue Size by Loan Amount			Aggregate Lending	
Bank Lending (%)	All Businesses (%)	<=\$100K (%)	> \$100K and <=\$250K (%)	> \$250K and <=\$1M (%)	All Loans	Revenue <= \$1 Million (%)
61.9	90.6	40.5	23.8	35.7	6,826	31.9

*Small Farm Loans*

Lending distributions of small farm loans demonstrated excellent penetration among farms of different sizes with levels substantially exceeding the aggregate and comparable to the concentration of small farms. In addition, over 82.0 percent were made in amounts under \$250 thousand, thus meeting an identified credit need among small farmers.

EXHIBIT 17						
BUSINESS REVENUE DISTRIBUTION OF SMALL FARM LOANS						
Businesses with Revenue <= \$1 Million		Originations Regardless of Revenue Size by Loan Amount			Aggregate Lending	
Bank Lending (%)	All Farms (%)	<=\$100K (%)	> \$100K and <=\$250K (%)	> \$250K and <=\$1M (%)	All Loans	Revenue <= \$1 Million (%)
75.0	90.6	57.5	25.0	17.5	257	56.8

***Community Development Test***

BOW’s performance under the community development test demonstrates adequate responsiveness to the community development needs of the Benton-Franklin assessment area. Community development needs were appropriately met through reasonable levels of community development loans and services. There were limited opportunities for community development investments specific to the assessment area; however, the bank made investments that covered a broader state-wide area that directly benefitted the assessment area.

These community development activities helped develop much needed affordable housing for low-income families, fostered economic development by financing a small business, helped stabilize and revitalize certain geographies by helping to retain local jobs, and provided financial expertise to a local non-profit that provides essential community services to low- and moderate-income individuals and families as well as provided personal financial education to low- and moderate-income students.

Below are highlights of the community development activities within the assessment area.

- \$1.1 million loan to develop 60 entry-level homes targeted to low-income homebuyers. The development is in a moderate-income census tract. This loan helped provide affordable housing to low-income families and individuals and stimulated economic development by financing a small business that employs 25 workers.
- 49 service hours were provided to a non-profit organization that provides job training, discounted retail services, and other community services to low- and moderate-income individuals and people with disabilities.
- 29 service hours were provided to two schools by providing students with personal financial education. Each school has a majority of students on the free or reduced-price lunch program.

## Spokane

### DESCRIPTION OF OPERATIONS IN SPOKANE

The Spokane assessment area consists of Spokane County in its entirety, which also comprises the Spokane MSA. Spokane County is one of four eastern Washington counties set along the Washington-Idaho border. Spokane is centrally located along the border and comprises a total land mass of 1,763 square miles, with a population of 451,200.<sup>37</sup> Spokane County's topography is varied. The terrain in the north county is increasingly forested and mountainous as it runs up against the foothills of the Colville National Forest. This part of the county includes Mount Spokane, which is 5,878 feet above sea level. The topography in the southeast part of the county is that of the Palouse Hills, which is recognized for its agricultural fertility. The southwest part of the county is one of channeled rock outcroppings and big lakes. Much of this region is part of the Turnbull National Wildlife Refuge.<sup>38</sup>

BOW has a limited presence in this competitive assessment area with three branches. As of June 30, 2009, BOW held \$30 million in deposits, representing 0.4 percent of the market share and ranking 15th out of 18 FDIC-insured financial institutions operating 128 offices with over \$7.3 billion in total deposits. Primary competitors include two large regional and national banks that collectively held 50.8 percent of the deposit market share with total deposits of \$3.7 billion.<sup>39</sup> In 2008, there were 56 lenders reporting small business loans pursuant to the CRA, most of which were large regional and national institutions. These lenders, which represent only a portion of the commercial lending market, extended 17,562 small business loans totaling \$602.0 million.

The following exhibit presents key demographic and business information used to help develop a performance context for the assessment area.

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<sup>37</sup> *Population in State of Washington*, (accessed January 26, 2010); available from <http://www.workforceexplorer.com/cgi/databrowsing/localAreaProfileQSMOREResult.asp?menuChoice=localAreaPr&o&criteria=Population&categoryType=population+census+data&geogArea=5304000005&more=More+Areas>

<sup>38</sup> *Spokane County Geography*, (accessed November 17, 2009); available from <http://www.workforceexplorer.com/article.asp?articleId=2802&PAGEID=&SUBID=>

<sup>39</sup> Federal Deposit Insurance Corporation, Institution Directory, *Summary of Deposits*, June 30, 2009; available from <http://www2.fdic.gov/sod/>.

EXHIBIT 18								
ASSESSMENT AREA DEMOGRAPHICS								
SPOKANE ASSESSMENT AREA								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	2	1.9	923	0.9	276	29.9	20,223	18.8
Moderate-income	32	30.2	28,716	26.7	4,655	16.2	20,328	18.9
Middle-income	45	42.5	44,814	41.7	3,122	7.0	24,634	22.9
Upper-income	27	25.5	32,910	30.7	836	2.5	42,178	39.3
<i>Total AA</i>	<i>106</i>	<i>100.0</i>	<i>107,363</i>	<i>100.0</i>	<i>8,889</i>	<i>8.3</i>	<i>107,363</i>	<i>100.0</i>
Income Categories	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied			Rental		Vacant	
		#	%-tract	%-units	#	%	#	%
Low-income	3,893	298	0.3	7.7	3,038	78.0	557	14.3
Moderate-income	57,130	23,263	21.7	40.7	28,698	50.2	5,169	9.0
Middle-income	70,258	48,030	44.8	68.4	18,412	26.2	3,816	5.4
Upper-income	43,724	35,575	33.2	81.4	6,297	14.4	1,852	4.2
<i>Total AA</i>	<i>175,005</i>	<i>107,166</i>	<i>100.0</i>	<i>61.2</i>	<i>56,445</i>	<i>32.3</i>	<i>11,394</i>	<i>6.5</i>
Income Categories	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	790	4.1	677	3.9	93	6.0	20	5.3
Moderate-income	7,072	36.9	6,129	35.5	778	50.4	165	43.9
Middle-income	6,953	36.2	6,313	36.6	514	33.3	126	33.5
Upper-income	4,376	22.8	4,153	24.0	158	10.2	65	17.3
<i>Total AA</i>	<i>19,191</i>	<i>100.0</i>	<i>17,272</i>	<i>100.0</i>	<i>1,543</i>	<i>100.0</i>	<i>376</i>	<i>100.0</i>
<b>Percentage of Total Businesses</b>		90.0		8.0		2.0		
Income Categories	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	2	0.4	2	0.4	0	0.0	0	0.0
Moderate-income	38	7.9	33	7.0	5	41.7	0	0.0
Middle-income	244	50.5	238	50.5	6	50.0	0	0.0
Upper-income	199	41.2	198	42.0	1	8.3	0	0.0
<i>Total AA</i>	<i>483</i>	<i>100.0</i>	<i>471</i>	<i>100.0</i>	<i>12</i>	<i>100.0</i>	<i>0</i>	<i>0.0</i>
<b>Percentage of Total Farms</b>		97.5		2.5		0.0		
2004 MSA Median Family Income			\$46,386	June 2009 Median Housing Value <sup>40</sup>			\$177,900	
2009 HUD Adjusted Median Family Income			\$60,200	June 2009 Unemployment Rate <sup>41</sup>			9.1%	

<sup>40</sup> Median Home Prices, available from <http://www.wcrer.wsu.edu/WSHM/2009Q2/MHP-Time%20Trend.pdf> (accessed on January 6, 2010).

<sup>41</sup> Bureau of Labor Statistics (Haver Analytics), available from <http://www2.fdic.gov/recon>.

Spokane enjoys a well-rounded and diverse economy as the regional center of services for the surrounding rural population of Eastern Washington and Northern Idaho. These services, along with the government/higher education, medical services, retail trade, and finance industries, also drive the economy. In addition, manufacturing is well supported with low-cost energy from the Bonneville dam power generation (located along the Columbia River in Portland Oregon, the plant services the Pacific Northwest region) and accessible transportation through the rail and interstate highway systems. Having a geographic concentration of services and a skilled labor force has attracted national and international investment in the form of tourism and conventions, the military, and research.<sup>42</sup>

The Spokane economy expanded for most of 2007 and 2008, but was in a mild recession by December of 2008,<sup>43</sup> which continued into the summer of 2009.<sup>44</sup> Fueling the expansion of 2007 to 2008, was the local housing boom that began a few years back. Although residential permitting and home sales had declined by 2007, the impact on related industries had not yet been felt during that time, as they continued to add employment. The expansion was not limited to the housing industry, being more broad based with growth in both the goods- and service-producing industries. Several local casinos expanded during this period, helping to attract tourism dollars and create jobs for construction and casino workers.<sup>45</sup> Because the economy is largely driven by exporting services to the surrounding area, the effects of the regional and national recession were inevitable. Similar to the nation, the housing industry became a drag on the economy by early 2009. New construction slacked and home prices fell, with job losses in both goods- and service-producing industries. The declining economic performance during the review period is apparent in the change in the unemployment rate, which rose dramatically from 4.3 percent in June 2007<sup>46</sup> to 9.1 percent by the summer of 2009.<sup>47</sup>

In addition to the slowing of new home construction, the housing market was also weakened by deteriorating mortgage credit quality. Adjustable-rate mortgages reset to higher rates, overburdening many homeowners and leading to increases in delinquency rates.<sup>48</sup> However, Spokane was not as exposed to the subprime mortgage market as other western metro areas. The share of subprime mortgages was well below the national average.<sup>49</sup> As such, the area did not see dramatic housing price declines. According to data from the WCRER, home prices declined 9.6 percent from second quarter 2008 to second quarter 2009, which is only slightly above the statewide figure of 9.2 percent and much lower than the highest decline in the state of 38.6 percent in San Juan County. Nevertheless, even with the slowing of new home building, there was excess supply coupled with waning demand.

According to the WCRER, housing is affordable for middle-income families. Data indicates affordability indexes for Spokane County is 157.8 percent, which is well above the state index of 123. Housing affordability for low- and moderate- income families, however, is more difficult.

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<sup>42</sup> Doug Tweedy. (August 28, 2009). Spokane County Profile. *Workforce EXPLORER*. (accessed October 30, 2009); available from <http://www.workforceexplorer.com/article.asp?ARTICLEID=9886>.

<sup>43</sup> Moody's Economy.com, Précis METRO, Spokane, August 2007 to December 2008.

<sup>44</sup> Moody's Economy.com, Précis METRO, Spokane, April & August 2009.

<sup>45</sup> Moody's Economy.com, Précis METRO, Spokane, August 2007.

<sup>46</sup> Moody's Economy.com, Précis METRO, Spokane, December 2007.

<sup>47</sup> Moody's Economy.com, Précis METRO, Spokane, August 2009.

<sup>48</sup> Moody's Economy.com, Précis METRO, Spokane, August 2007.

<sup>49</sup> Moody's Economy.com, Précis METRO, Spokane, December 2007.

As an example, a low-income or moderate income individual earning 50.0 to 80.0 percent of median income may be able to qualify for a 30-year fixed rate mortgage between \$64,107 and \$144,260 with an interest rate of 4.0 percent.<sup>50</sup> However, a median housing price within the assessment area of \$177,900 as noted on Exhibit 18, makes home-ownership out of reach for low-income and moderate-income individuals. In addition, lenders have made it more difficult for potential homebuyers to obtain credit.<sup>51</sup>

The declining economic conditions during the review period resulted in financial institutions tightening their lending standards and terms on all major loan products. The move toward more stringent lending policies was a trend throughout 2008, but eased measurably by 2009. For example, according to the October 2009 Senior Loan Officer Opinion Survey on Bank Lending Practices conducted by the Federal Reserve Board of Governors, domestic banks indicated that they continued to tighten standards and terms on all major credit types, however, the net percentages of banks that tightened standards and terms for most loan categories continued to decline from the peaks reached in late 2008. The exception to this declining trend were in prime residential mortgages and revolving home equity lines of credit, for which there was little change from previous surveys. The survey also indicated that the demand for most major categories of loans at domestic banks continued to weaken. With regard to commercial and industrial loans, the two sources of the decline in demand were decreases in the need to finance investment in plant and equipment, inventories, accounts receivable, and merger and acquisition activity.

This information was confirmed by community contacts at the local level where loan demand from small businesses declined since the previous examination. The lack of demand stemmed from businesses having deteriorating balance sheets and thus not in a position to qualify for increasingly tight lending standards. Rather than new credit, local sources indicate that what is needed most is technical assistance for small businesses to help improve balance sheets and cash flow. Refinance loans with lower payments would also help in this regard. Other identified needs included additional housing units affordable to low- and moderate-income individuals and families.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN SPOKANE ASSESSMENT AREA**

### ***Lending Test***

Overall lending test performance in the Spokane assessment is satisfactory. Strength was noted in small business loans where significant levels were made to small businesses and with relatively high levels within low-income census tracts. Performance in home mortgage refinance loans was not as strong. Lending levels within moderate-income census tracts and to moderate-income borrowers were low compared to community demographics and aggregate lending levels.

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<sup>50</sup> Based on CNNs Housing Affordability Calculator available from:  
<http://cgi.money.cnn.com/tools/houseafford/houseafford.html>

<sup>51</sup> Moody's Economy.com, Précis METRO, Spokane, April 2008.

Lending Distribution by Geography

*Small Business Lending*

The geographic distribution of small business loans is excellent. Loans were made within all income categories with no unusual or conspicuous lending gaps. There was notable strength within low-income census tracts where the lending level was three times the concentration of businesses and more than four times aggregate lending. Loans were concentrated near the downtown branch which is located near low-income census tracts and many small businesses. Performance in moderate-income census tracts is reasonably comparable to the concentration of small businesses and aggregate lending.

EXHIBIT 19			
GEOGRAPHIC DISTRIBUTION OF SMALL BUSINESS LOANS			
Census Tract Income Category	Bank Lending (%)	Business Concentration (%)	Aggregate Lending (%)
Low	13.9	4.1	3.0
Moderate	27.8	36.9	29.8
Middle	13.9	36.2	34.9
Upper	44.4	22.8	32.3

*Home Mortgage Refinance Lending*

The geographic distribution of home mortgage refinance loans is reasonable. Loans were made throughout the assessment area with no conspicuous lending gaps. Good performance was noted within low-income census tracts where lending levels exceeded owner occupied units and aggregate lending. Lending within moderate- and middle-income census tracts is not as strong, trailing behind the concentration of owner-occupied units and aggregate lending. In addition, there appears to be a disproportionate level of lending within upper-income census tracts considering the availability of owner-occupied housing units and aggregate lending. These lending patterns could not be adequately explained by contextual factors. However, the weaker showing in moderate- and middle-income areas was mitigated by the good performance in low-income census tracts for an overall reasonable distribution.

EXHIBIT 20			
GEOGRAPHIC DISTRIBUTION OF HOME MORTGAGE REFINANCE LOANS			
Census Tract Income Category	Bank Lending (%)	Owner Occupied Units (%)	Aggregate Lending (%)
Low	2.9	0.3	0.4
Moderate	11.4	21.7	21.0
Middle	25.7	44.8	43.4
Upper	60.0	33.2	35.2

Lending Distribution by Borrower Income and Business Revenue

*Small Business Lending*

Lending distribution of small business loans demonstrated excellent penetration among businesses of different sizes with substantial levels granted to small businesses. While lending levels were below the concentration of small businesses, they were double aggregate lending levels. In addition, a large percentage of small business loans were made in small amounts, thus meeting an identified credit need within the community.

EXHIBIT 21						
BUSINESS REVENUE DISTRIBUTION OF SMALL BUSINESS LOANS						
Businesses with Revenue <= \$1 Million		Originations Regardless of Revenue Size by Loan Amount			Aggregate Lending	
Bank Lending (%)	All Businesses (%)	<=\$100K (%)	> \$100K and <=\$250K (%)	> \$250K and <=\$1M (%)	All Loans	Revenue <= \$1 Million (%)
63.9	90.0	44.4	16.7	38.9	17,562	31.7

*Home Mortgage Refinance Lending*

The distribution of home mortgage loans among borrowers of different incomes is reasonable. Loans were made to borrowers of all income categories including low- and moderate-income borrowers. Though less than the percentage of low-income families, lending performance to low-income borrowers exceeded aggregate lending levels and was considered reasonable. Performance in lending to moderate-income borrowers is poor with disproportionately low levels of lending compared to the percentage of families and aggregate lending. This is partially explained by affordability issues, however aggregate lending levels suggest the bank may be missing opportunities to lend to this segment of the community. Performance regarding middle-income borrowers is reasonable as those levels are comparable to the concentration of families, however, those levels trail significantly behind aggregate lending levels and may also indicate missed opportunities. Loans to upper-income borrowers appear to be disproportionately high compared to the concentration of families and aggregate lending levels. This was mitigated somewhat by the level of lending to low-income borrowers, which was slightly higher than aggregate for an overall reasonable distribution.

EXHIBIT 22			
HOME MORTGAGE REFINANCE LOANS			
Income Level	Bank Lending (%)	Families (%)	Aggregate Lending (%)
Low	6.5	18.8	5.5
Moderate	3.2	18.9	19.6
Middle	19.4	23.0	29.4
Upper	70.9	39.3	45.5



### *Community Development Test*

BOW's performance under the community development test demonstrates adequate responsiveness to the community development needs of the Spokane assessment area. Community development needs were appropriately met through a high level of community development services and reasonable levels of community development loans and investments. The bank also made investments that covered a broader state-wide area that directly benefitted the assessment area.

These community development activities provided considerable support to a local business development center, helped develop much needed affordable housing for low-income families, and provided financial support to community service organizations targeting low- and moderate-income individuals and families.

Below are highlights of the community development activities within the assessment area.

- 705 service hours were provided to a business development center that made micro loans to small businesses and small farms in underserved areas. The bank provided significant support to this organization by providing financial expertise as board members, members of loan committees, and loan underwriters.
- \$1.2 million loan to complete renovation of 12 affordable housing units targeted to low- and moderate-income individuals and families. The units were formerly cabins that were rented for recreational use, which will now will be either rented or sold in price ranges affordable for low- and moderate- incomes. Housing that is affordable to low- and moderate-income families was an identified community development need.
- \$305,000 loan to construct a community facility located in a moderate-income census tract. The facility will provide childcare, financial-assistance programs, and low-cost housing for low- and moderate-income individuals and families.
- \$732,252 investment in mortgaged-backed securities that included 9 loans to low- and moderate-income borrowers within the assessment area.
- \$14,225 total donations were provided to three organizations involved in providing community services for low- and moderate-income individuals and families. These services include free tax preparation, prevention of child abuse, and elimination of homelessness.

## LIMITED-SCOPE ASSESSMENT AREA CONCLUSIONS

*For each assessment area where a limited-scope review was performed using the examination procedures.*

BOW's performance in the assessment area receiving a limited review is generally consistent with the areas receiving a full-scope review. Due to a smaller presence and lower percentage of loan and deposit activity, performance within this assessment area received less weight than the full-scope assessment areas. Consequently, performance in this assessment area did not materially affect the bank's overall lending and community development test performance.

EXHIBIT 23		
ASSESSMENT AREA	LENDING TEST	COMMUNITY DEVELOPMENT TEST
Asotin	Consistent	Consistent

Lending test performance in the Asotin assessment area was consistent with performance in the full-scope assessment areas. Strengths were noted in small business lending where high percentages of loans were made to small businesses and in moderate-income census tracts. There were no low-income census tracts within the area. A lack of lending to small businesses in middle-income tracts was noted that could not be fully explained by contextual information. However, given the high percentage of lending in moderate-income tracts, overall performance was considered reasonable. Other loan types offered limited transactions to provide meaningful analysis.

Community development test performance was generally consistent with performance in the full-scope assessment areas considering the limited opportunities in this large, sparsely populated assessment area with little more than 21,000 in population. While the bank has no community development loans, investments, or services, the bank does operate one branch in a moderate-income census tract providing essential banking services to this community.

Facts and data reviewed, including performance and demographic information, can be found in Appendix B of this report.

## APPENDIX A

### GLOSSARY OF TERMS

**Aggregate lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Census tract:** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community development:** All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize:

- (i) Low- or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on:
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

**Consumer loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into ‘male householder’ (a family with a male householder and no wife present) or ‘female householder’ (a family with a female householder and no husband present).

**Full-scope review:** Performance under the lending and community development tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited-scope review:** Performance under the lending and community development tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Metropolitan area (MA):** A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

**Middle-income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

**Moderate-income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

**Small loan(s) to business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

**Small loan(s) to farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Upper-income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

## APPENDIX B

### LIMITED-SCOPE ASSESSMENT AREAS

#### MARKET PROFILES

All demographic and economic information in this appendix came from one of the following sources:

- U.S. Census.
- 2009 Dun & Bradstreet Data.
- Bureau of Labor Statistics (Haver Analytics), available from <http://www2.fdic.gov/recon>.
- FDIC, Institution Directory, Deposit Market Share Report, *Summary of Deposits*, June 30, 2009, accessed on September 12, 2009; available at <http://www2.fdic.gov>.
- *Asotin County Geography*, (accessed November 24, 2009); available from <http://www.workforceexplorer.com/article.asp?articleId=2779&PAGEID=&SUBID=>.
- Washington Center for Real Estate Research, *Washington State's Housing Market, 2<sup>nd</sup> Quarter 2009*, (accessed January 26, 2010); available at <http://www.wcrer.wsu.edu/WSHM/2009Q2/WSHM-2009Q2-hi-res.pdf>.

## **ASOTIN ASSESSMENT AREA**

The Asotin assessment area consists of Asotin County in its entirety. Asotin County is part of the Lewiston, Idaho-Washington MSA, a multistate MSA. The assessment area is within Washington state and does not cross into Idaho. Asotin County is situated in the southeastern most corner of Washington. It is bordered to the east by the state of Idaho (which is demarcated by the Snake River). To its south lies the state of Oregon. The county's entire western border and part of its northern border is shared with Whitman County (which is also demarcated by the Snake River). The county's geography is primarily valleys and deltas in the north and the mountainous terrain of the Blue Mountains and Umatilla National Forest in the south. There are also rich and fertile hills and plateaus that constitute agricultural farmlands. The assessment area is fairly large and sparsely populated, comprising a total land mass of 636 square miles with a population of just 21,420.

Bank of Whitman has a relatively limited presence in this geographically large assessment area with just one branch. As of June 30, 2009, there were six FDIC insured financial institutions operating eight offices. The assessment area is dominated by three large regional and national institutions that have a combined deposit market share of 70.1 percent and total deposits of \$163.0 million. BOW was ranked fourth among the six depository institutions in this assessment area with 10.5 percent of the deposit market share and \$24.0 million in deposits. In 2009, there were 21 lenders reporting small business loans and 10 lenders reporting small farm loans, most of which were large regional and national institutions. These lenders extended 733 small business loans totaling \$20.0 million and 30 small farm loans totaling \$3.2 million.

The following exhibit presents key demographic and business information as well as the bank's lending distributions for the assessment area.

EXHIBIT 24								
ASSESSMENT AREA DEMOGRAPHICS								
ASOTIN ASSESSMENT AREA								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	1,230	21.7
Moderate-income	2	33.3	1,506	26.6	291	19.3	1,120	19.8
Middle-income	3	50.0	2,890	51.0	304	10.5	1,229	21.7
Upper-income	1	16.7	1,272	22.4	62	4.9	2,089	36.9
<i>Total AA</i>	<i>6</i>	<i>100.0</i>	<i>5,668</i>	<i>100.0</i>	<i>657</i>	<i>11.6</i>	<i>5,668</i>	<i>100.0</i>
Income Categories	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied			Rental		Vacant	
		#	%-tract	%-units	#	%	#	%
Moderate-income	2,701	1,296	23.1	48.0	1,143	42.3	262	9.7
Middle-income	4,540	2,911	51.9	64.1	1,249	27.5	380	8.4
Upper-income	1,870	1,405	25.0	75.1	360	19.3	105	5.6
<i>Total AA</i>	<i>9,111</i>	<i>5,612</i>	<i>100.0</i>	<i>61.6</i>	<i>2,752</i>	<i>30.2</i>	<i>747</i>	<i>8.2</i>
Income Categories	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Moderate-income	342	40.0	305	38.7	26	51.0	11	68.8
Middle-income	382	44.6	360	45.6	18	35.3	4	25.0
Upper-income	132	15.4	124	15.7	7	13.7	1	6.3
<i>Total AA</i>	<i>856</i>	<i>100.0</i>	<i>789</i>	<i>100.0</i>	<i>51</i>	<i>100.0</i>	<i>16</i>	<i>100.0</i>
<b>Percentage of Total Businesses</b>		92.2		6.0		1.9		
Income Categories	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Moderate-income	3	5.8	3	5.8	0	0.0	0	0.0
Middle-income	34	65.4	34	65.4	0	0.0	0	0.0
Upper-income	15	28.8	15	28.8	0	0.0	0	0.0
<i>Total AA</i>	<i>52</i>	<i>100.0</i>	<i>52</i>	<i>100.0</i>	<i>0</i>	<i>100.0</i>	<i>0</i>	<i>100.0</i>
<b>Percentage of Total Farms</b>		100.0		0.0		0.0		
2004 MSA Median Family Income			\$42,747	June 2009 Median Housing Value			\$155,200	
2009 HUD Adjusted Median Family Income			\$53,800	June 2009 Unemployment Rate			8.1%	



<b>EXHIBIT 25</b>			
<b>GEOGRAPHIC DISTRIBUTION OF SMALL BUSINESS LOANS</b>			
<b>Census Tract Income Category</b>	<b>Bank Lending (%)</b>	<b>Business Concentration (%)</b>	<b>Aggregate Lending (%)</b>
Moderate	50.0	40.0	30.8
Middle	0	44.6	48.2
Upper	50.0	15.4	21.0

<b>EXHIBIT 26</b>						
<b>BUSINESS REVENUE DISTRIBUTION OF SMALL BUSINESS LOANS</b>						
<b>Businesses with Revenue &lt;= \$1 Million</b>		<b>Originations Regardless of Revenue Size by Loan Amount</b>			<b>Aggregate Lending</b>	
<b>Bank Lending (%)</b>	<b>All Businesses (%)</b>	<b>&lt;=\$100K (%)</b>	<b>&gt; \$100K and &lt;=\$250K (%)</b>	<b>&gt; \$250K and &lt;=\$1M (%)</b>	<b>All Loans</b>	<b>Revenue &lt;= \$1 Million (%)</b>
71.4	92.2	78.6	14.3	7.1	733	29.6