



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 11, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Mt. Rainier National Bank
Charter Number 22034**

**501 Roosevelt Avenue
Enumclaw, WA 98022**

**Comptroller of the Currency
1000 Second Avenue, Suite 3300
Seattle, WA 98104**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

TABLE OF CONTENTS

GENERAL INFORMATION	2
INSTITUTION'S CRA RATING	2
DESCRIPTION OF INSTITUTION	3
DESCRIPTION OF MT. RAINIER'S ASSESSMENT AREA	4
CONCLUSIONS ABOUT PERFORMANCE CRITERIA.....	6

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of Mt. Rainier National Bank, prepared by the Office of the Comptroller of the Currency, as of June 11, 2003. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

INSTITUTION'S CRA RATING

This institution is rated "**Satisfactory.**"

The major factors that support this rating include:

- ❑ The average loan-to-deposit ratio of 67 percent is consistent with other peer banks.
- ❑ A majority of loans are in the bank's assessment area.
- ❑ The distribution of loans reflects reasonable penetration among businesses of different sizes and borrowers of different income levels.
- ❑ The geographic distribution of loans reflects low dispersion throughout the assessment area.
- ❑ There were no public complaints about the bank's CRA performance.

DESCRIPTION OF INSTITUTION

Mt. Rainier National Bank (MRNB) is a community bank that was organized and founded by local business people and dairy farmers in 1990. MRNB is a wholly owned subsidiary of Mountain Bank Holding. The main office is located in Enumclaw, Washington with five branch offices in Auburn, Black Diamond, Buckley, Maple Valley, and Sumner. MRNB's primary service area is South King County and East Pierce County. Since our last evaluation, the bank has opened three branches located in Auburn, Maple Valley, and Sumner; two of which are located in moderate-income tracts of King County.

Through its main office and five branches, MRNB offers a full line of commercial and consumer banking products. Their deposit services include checking accounts, savings programs, NOW accounts, and certificates of deposit. Loan products include short-to-medium commercial and consumer loans, including operating loans and lines of credit, improvement and rehabilitation loans, VISA credit cards, and residential mortgage lending. The bank also offers debit cards, automatic drafts for various accounts, telephone banking, Internet banking, and bill payment services. MRNB has a night depository, automated teller machines (ATM), as well as drive-up services, at each of its offices.

There are no financial or legal impediments that hinder the bank's ability to meet the credit needs of its community. As of March 31, 2003, the bank reported total assets of \$144 million, net loans of \$87 million (60 percent total assets) and total deposits of \$128 million. The bank's primary business focus is small business loans; however, real estate and consumer loans also represent well-balanced portions of the loan portfolio. Table 1 reflects the loan portfolio by major product type.

Table 1

LOAN PORTFOLIO COMPOSITION MARCH 31, 2003*		
Loan Type	\$ Volume (000)	% of Portfolio
Agriculture	3,291	4%
Commercial Real Estate	46,901	53%
Commercial	18,309	21%
1-4 Family Residential	12,962	15%
Consumer	6,056	7%
Total:	87,519	100%

*Source: 3/31/03 Call Report – Average Gross Loans

For this examination, we evaluated the bank's CRA performance based on lending performance in commercial loans originated during 1998 through 2002, and HMDA mortgage loan originations from January 1, 1999 through December 31, 2002.

DESCRIPTION OF MT. RAINIER'S ASSESSMENT AREA

The assessment area boundary was expanded since the last examination period, increasing from 11 to 24 census tracts. Seventeen census tracts are located in King County and seven census tracts are located in Pierce County. The assessment area crosses over two Primary Metropolitan Statistical Areas (PMSAs): Seattle-Bellevue-Everett PMSA 7600 and the Tacoma PMSA 8200. The assessment area consists of whole geographies and does not arbitrarily exclude any low- or moderate- income census tracts.

MRNB's primary service area is Southeast King County and Northeast Pierce County. Major employers in the area include Mutual of Enumclaw Insurance Company, Weyerhaeuser, and other independent forest product businesses. The economy is dependent on agriculture and the timber industry. There are over 100 employers in the area, most of which are small businesses or agricultural operations. MRNB's market area includes a mixture of rural and suburban communities of the cities of Seattle and Tacoma. Several years ago the local government imposed a water moratorium on water and sewer availability, which continues to restrict economic growth in the Enumclaw community.

The Southeast King County includes the cities of Enumclaw, Black Diamond, Auburn, and Maple Valley. Based on 2000 U.S. Census data, Enumclaw's population is 11,100, a 46 percent increase since 1990. Enumclaw is primarily considered a residential community, with most growth in single-family residences. The local economy is dependent upon the forest products industry, farming, and tourism. Black Diamond is now experiencing increased growth, with a population of 4,035, up from 1,760 in 1990. Auburn is a larger community with a population of 45,010, a 28 percent increase from 1990. Maple Valley has increased its population to 16,165 from 10,500 in 1997, when it became a city. The 2002 U.S. Department of Housing and Urban Development (HUD) estimated the median family income for King County was \$77,900. The 2000 U.S. Census owner-occupied median housing price was \$236,900. Table 2 provides a breakdown of the bank's 17 census tracts located in King County by income designation of geographies and families.

Table 2

ASSESSMENT AREA COMPOSITION KING COUNTY PMSA INCOME DISTRIBUTION OF CENSUS TRACTS & FAMILIES*				
Income Definition of Tracts / Families	Number of Total Census Tracts	Percent of Total Census Tracts	Number of Total Families	Percent of Total Families
Low Income	0	0%	4,102	18%
Moderate Income	5	29%	4,508	20%
Middle Income	10	59%	6,723	29%
Upper Income	2	12%	7,651	33%
Total:	17	100%	22,984	100%

*Source: 1990 U.S. Census

The bank's portion of the assessment area located in Pierce County includes the communities of Buckley and Sumner. Buckley has experienced less growth, with a population of 4,410. Buckley is a residential community with very little business growth in the past few years. Sumner is a small town of about 8,600 residents, located in Pierce County, approximately 30 miles south of Seattle and 15 miles east of Tacoma. The 2002 HUD estimated the median family income for Pierce County was \$52,000. The 2000 U.S. Census owner-occupied median housing price was \$146,900. Table 3 provides a breakdown of the bank's seven census tracts located in Pierce County by income designation of geographies and families.

Table 3

ASSESSMENT AREA COMPOSITION PIERCE COUNTY PMSA INCOME DISTRIBUTION OF CENSUS TRACTS & FAMILIES*				
Income Definition of Tracts / Families	Number of Total Census Tracts	Percent of Total Census Tracts	Number of Total Families	Percent of Total Families
Low Income	0	0%	1,259	12%
Moderate Income	0	0%	1,622	16%
Middle Income	4	43%	2,860	27%
Upper Income	3	57%	4,741	45%
Total:	7	100%	10,482	100%

*Source: 1990 U.S. Census

There is strong competition for market share among the assessment area financial institutions, including several community banks and branches of mid-size and large commercial banks. Competing banks for commercial business include Bank of America, Key Bank, Washington Mutual, Wells Fargo, and U.S. Bank, all of which have branches within the bank's AA. In addition, MRNB also competes with a number of non-bank competitors, such as insurance companies, mortgage companies, credit unions, and other financial institutions.

In conjunction with this CRA examination, we conducted a community contact interview and reviewed contacts performed by other regulatory agencies. Community contacts are interviewed to learn about credit opportunities within the community and how well financial institutions address the credit and service needs of the community. Information obtained from contacts and other available sources indicate that Mt. Rainier National Bank is well-known in the community and has responded appropriately to identified needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The bank's commitment to the Community Reinvestment Act is reflected in the performance criteria below.

Loan-to-Deposit Ratio

MRNB's level of lending is reasonable given the bank's size, the credit needs, and the competitive banking market within the assessment area.

The LTD ratio demonstrates a willingness to lend. We analyzed the bank's LTD ratio over the last 17 quarters, from March 1999 through March 2003. During these 17 quarters, the LTD ratio ranged from a low of 60 percent in March 1999 to a high of 76 percent in June 2000, with an average of 67 percent.

Examiners also reviewed six banks of similar size and financial condition that are located within Pierce and King Counties. The average LTD ratio was 72 percent. The bank's LTD ratio is consistent with the median range of other peer banks and meets the standard for satisfactory performance.

Lending in Assessment Area

A majority of loans and lending-related activity are in the bank's assessment area.

Analysis for lending in the assessment area included all bank loans originated during January 1999 through December 2002. We prepared this analysis based on the bank's data, which we tested for accuracy. Table 4 demonstrates the distribution of all loans originated inside and outside the bank's assessment area.

Table 4

NUMBER AND PERCENTAGE OF LOANS INSIDE AND OUTSIDE THE ASSESSMENT AREA YEARS 1999-2002								
	Inside Assessment Area				Outside Assessment Area			
	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)
1999	487	76%	26,448	67%	153	24%	12,877	33%
2000	513	72%	26,428	63%	203	28%	15,527	37%
2001	526	72%	36,781	65%	203	28%	19,955	35%
2002	602	78%	49,713	64%	169	22%	28,406	36%
Total Loan Sample:	2,128	75%	139,370	64%	728	25%	76,765	36%

As demonstrated in Table 4, the bank originated a majority of its loans within the assessment area and the bank disbursed a majority of lending dollars within the assessment area. Small bank CRA guidance states that if less than 50 percent of the bank's loans or other lending-related activities are in the assessment area, the bank does not meet the standards for a "satisfactory" rating for this criterion. The bank's lending within the assessment area meets the standard for satisfactory performance.

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

The distribution of loans, given the demographics of the assessment area, reflects reasonable penetration among individuals of different income levels and businesses of different sizes.

Our sample included consumer real estate and commercial loan products. Because the bank is located in a PMSA, we reviewed Home Mortgage Disclosure Act (HMDA) reportable loans originated during the years 1999 through 2002. HMDA reportable loans include home purchase, refinance and home improvement loans. For analysis of the bank's performance in lending to businesses of different size, we selected a random sample of 20 commercial loans originated between April 1998 and December 2002. We selected these loan products for review because they are the primary product lines and were originated within the assessment area.

Analysis of Lending to Borrowers of Different Incomes

We compared the bank's consumer real estate lending activity to the distribution of families in the assessment area. We reviewed 134 loan originations totaling \$8.05 million in the King County PMSA and 63 loans totaling \$3.27 million in the Pierce County PMSA. Please see Tables 5 and 6 for the results of our review.

Table 5

KING COUNTY PMSA HOME MORTGAGE LOANS ORIGINATION BY INCOME LEVEL YEARS 1999-2002					
Borrower Income*	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Families in AA**
Low Income	27	20%	967	12%	18%
Moderate Income	41	31%	1,399	18%	20%
Middle Income	28	21%	1,462	18%	29%
Upper Income	38	28%	4,223	52%	33%
Total Loan Sample:	134	100%	8,051	100%	100%

*Based on HUD 2002 Updated Median Family Income.

**Source: 1990 U.S. Census

As Table 5 reflects, the bank originated a significant number of loans to low- and moderate incomes that significantly exceeded the demographics of the King County PMSA. This reflects excellent responsiveness to low and moderate-income families in King County.

Table 6

PIERCE COUNTY PMSA HOME MORTGAGE LOANS ORIGINATION BY INCOME LEVEL YEARS 1999-2002					
Borrower Income*	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Families in AA**
Low Income	3	5%	320	10%	12%
Moderate Income	14	22%	804	24%	16%
Middle Income	18	29%	574	18%	27%
Upper Income	28	44%	1,575	48%	45%
Total Loan Sample:	63	100%	3,273	100%	100%

*Based on HUD 2002 Updated Median Family Income.

**Source: 1990 U.S. Census

Table 6 indicates that for low-income borrowers, both in number of loans and dollar volume, the bank's lending is not consistent with the demographics of the Pierce County PMSA. Twelve percent of the families are defined as low-income individuals; however, almost half have incomes below the poverty level, making home mortgage products difficult to obtain. For loan originations to moderate-income borrowers, the bank significantly exceeded the demographics of the assessment area. Overall, the bank's level of lending to borrowers of different income levels meets the standard for satisfactory performance.

Analysis of Lending to Businesses of Different Sizes

We compared the bank's lending to businesses in the assessment area to the demographics of small businesses of the assessment area. Small businesses are those with gross revenues of \$1 million or less. Updated business demographics reflect that 94 percent of businesses in King County and 97 percent in Pierce County are defined by Dun & Bradstreet as small businesses. Tables 7 and 8 reflect the distribution of commercial lending by business revenue size.

Table 7

KING COUNTY PMSA COMMERCIAL LOANS BY ANNUAL REVENUE YEARS 1998-2002					
Revenue Size	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Businesses in AA*
Less than \$1 Million	17	85%	3,643	84%	94%
Greater than \$1 Million	3	15%	712	16%	6%
Total Loan Sample:	20	100%	4,355	100%	100%

*Source: 2002 Dun & Bradstreet

The bank originated 85 percent in number of loans and 84 percent in dollar volume to businesses with gross annual revenues of \$1 million or less, which is slightly below the Dun & Bradstreet

demographics. However, over 50 percent of our loan samples indicated that the gross annual revenue of the borrower was under \$250 thousand, an indication that the bank is targeting their lending efforts to micro businesses in the King County area.

Table 8

PIERCE COUNTY PMSA COMMERCIAL LOANS BY ANNUAL REVENUE YEARS 1998-2002					
Revenue Size	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Businesses in AA*
Less than \$1 Million	19	95%	2,487	99%	97%
Greater than \$1 Million	1	5%	25	1%	3%
Total Loan Sample:	20	100%	2,512	100%	100%

*Source: 2002 Dun & Bradstreet

Table 8 data reflects a distribution of loans to small businesses that is above the demographics of the assessment area. This demonstrates the bank's commitment to make loans available to small businesses.

Overall, the bank's level of lending to businesses of different sizes meets the standard for satisfactory performance.

Geographic Distribution of Loans

The geographic distribution of loans reflects low dispersion throughout the assessment area. We reviewed the bank's pattern of lending in low- and moderate-income tracts within the assessment area. Overall, the bank's lending distribution is not reflective of the population demographics.

For this analysis, we used the same sample of commercial and consumer real estate loans from the **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes** section of this evaluation. Tables 9 and 10 reflect the bank's commercial and consumer real estate lending performance in the King County. The King County portion of the assessment area has no low-income tracts and five moderate-income tracts. The bank's Auburn and Maple Valley branches are located in moderate-income tracts. We did not evaluate the bank's performance with loans originated in Pierce County because this area only includes middle- and upper-income tracts and analysis of their performance would be meaningless.

Table 9

KING COUNTY PMSA COMMERCIAL LOAN GEOGRAPHIC DISTRIBUTION YEARS 1998-2002					
Income of Tract	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Businesses in AA*
Low Income	0	0%	0	0%	0%
Moderate Income	1	5%	775	18%	34%
Middle Income	18	90%	3,545	81%	62%
Upper Income	1	5%	35	1%	4%
Total Loan Sample:	20	100%	4,355	100%	100%

*Source: 2002 Dun & Bradstreet

Table 10

KING COUNTY PMSA HOME MORTGAGE LOANS GEOGRAPHIC DISTRIBUTION YEARS 1999 -2002					
Income of Tract	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Owner Occupied Housing in AA*
Low Income	0	0%	0	0%	0%
Moderate Income	2	2%	107	2%	18%
Middle Income	114	85%	5,432	67%	76%
Upper Income	18	13%	2,512	31%	6%
Total Loan Sample:	134	100%	8,051	100%	100%

*Source: 1990 U.S. Census

Tables 9 and 10 indicate that the bank’s lending to businesses and individuals located in moderate-income tracts are not consistent with the Dun & Bradstreet or U.S. Census demographics. The Maple Valley has only been opened since April 2002 and our analysis is through December 2002, which mitigates the low penetration with consumer and commercial lending. The Auburn branch has been in operation since November 1998. Per discussion with management, the Auburn branch’s focus is commercial lending, which explains the low penetration with consumer customers (see Table 10). During 2003 the bank plans to move the Auburn branch to a more centralized location to increase profitability and ensure they are meeting the needs of businesses located in moderate-income tracts.

Qualified Investments and CD Services

Services

The management of MRNB is kept informed of the credit needs of the AA through the personal involvement of the staff, officers, and directors in local and professional organizations. The bank provides outreach into the community to ascertain credit needs through customer contacts, community activities and contacts with community organizations and civic leaders. For example, organizations that bank employees serve or are involved with is as follows: The

Buckley Economic Council, City of Enumclaw Board of Adjustment, Enumclaw Downtown Partnership, and the Enumclaw Economic Restructuring Committee. Two board members are actively involved in the Washington State Dairy Federation.

Innovated Loan Program

The bank administers a no-interest loan, ranging from \$2,500 - \$30,000, through the King County Conservation District for environmental improvements to dairy farms in the AA. During the evaluation period, the bank originated seven loans totaling \$210,000. This loan does not qualify for community development credit; however, it is an indication of the bank's commitment to provide reduced interest rate loans that benefit the community as a whole.

Responses to Complaints

Mt. Rainier National Bank has received no complaints about its performance under the Community Reinvestment Act during this evaluation period.

Fair Lending Review

An analysis of 1999 - 2002 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.