

PUBLIC DISCLOSURE

February 22, 2000

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Harbor Bank, NA
23218**

**7022 Pioneer Way
Gig Harbor, WA 98335**

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

Note: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

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

This document is an evaluation of the CRA performance of Harbor Bank, N.A. prepared by the Office of the Comptroller of the Currency as of February 22, 2000. 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 CRA rating is derived from the five performance factors listed below:

- Loan-to-Deposit Ratio
- Percentage of Lending Within the Assessment Area
- Lending to Businesses of Different Sizes and Borrowers of Different Incomes
- Geographic Distribution of Loans
- Response to CRA Performance Complaints

The bank's loan-to-deposit ratio is above the peer average and meets the standard for satisfactory performance. The bank did not originate a majority of its consumer loans to consumers residing in the assessment area. However, the bank did originate a majority of its business loans to businesses located within the assessment area. The bank's primary product line is commercial loans. Consequently, the bank's lending performance to businesses outweighs its consumer lending performance. Therefore, the bank's lending within its assessment area meets the standard for satisfactory performance.

In addition, the bank's lending performance reflects a reasonable penetration of loans among individuals of different income levels and businesses of different sizes and meets the standard for satisfactory performance. We could not conduct a meaningful geographic distribution analysis because the bank's assessment area consists entirely of upper-income census tracts. There have been no consumer complaints concerning the bank's CRA performance, and we found no evidence of discriminatory lending practices. These factors all led to a composite rating of satisfactory.

DESCRIPTION OF INSTITUTION:

Harbor Bank, N.A. is a community bank located on the peninsula of Gig Harbor, Washington, a residential community ten (10) miles west of Tacoma, Washington. The bank has been operating since June 11, 1997. The bank also operates a branch a few miles from the bank. The bank maintains an ATM at each location.

Harbor Bank is widely owned with 395 local shareholders. As a group, the directors of the bank own 20% of the bank's stock. As of September 30, 1999, Harbor Bank had average assets of \$36 million and gross loans totaling \$33.3 million.¹

The bank offers a variety of retail bank products and services. However, Harbor Bank's primary focus is commercial lending. The bank offers loans guaranteed by the Small Business Administration. As of September 30, 1999, commercial and commercial real estate loans accounted for 70.5% of average gross loans, averaging \$25.4 million. Consumer loans accounted for 14.6% of average gross loans, averaging \$5.2 million. Although residential real estate loans accounted for 14.7% of average gross loans and averaged \$5.3 million, these loans were not for the purchase of a dwelling. Instead, these loans were for business purposes, with the borrower's residence as collateral for the loan.²

Competition from other financial institutions is significant, with numerous national banks, state banks, and credit unions vying for business. In the bank's assessment area, four large national banks, one large thrift, four state banks, and two credit unions all operate branches that compete with Harbor Bank.

This is Harbor Bank's first performance evaluation. This performance evaluation discusses the bank's two primary lending products: commercial and consumer loans. In addition, this evaluation assesses the bank's performance during the assessment period of June 11, 1997 through January 31, 2000.

DESCRIPTION OF GIG HARBOR:

The bank's assessment area meets the requirements of the regulation and does not arbitrarily exclude low-or moderate-income census tracts. The assessment area is 4.14 square miles of the Gig Harbor Peninsula in Pierce County.

The Department of Housing and Urban Development estimates the 1999 Updated MSA Median Family Income at \$48,900. Unemployment averaged 4.6 % for 1999 and total personal income expanded 5.25% in 1999.³ This low unemployment and strong economic conditions are expected to continue. The major employers for Pierce County include Fort Lewis Army Post, McChord Air Force Base, and Intel Corporation.

The assessment area is comprised entirely of upper-income census tracts and is located on the Gig Harbor Peninsula. Water surrounds the assessment area to the south and east. Land, consisting of middle-income census tracts, surrounds the assessment area to the north and west.

¹ Data from Uniform Bank Performance Report dated September 30, 1999.

² Data from Uniform Bank Performance Report dated September 30, 1999.

³ Data from 1999 Pierce County Economic Index.

Based on the 1990 Census Data, the assessment area consists of five income tracts, of which 100% are upper-income. The assessment area has a total population of 31,636, consisting of 9,204 total families. Of these families, 8% are characterized as low-income, 11% are moderate-income, and 81% are middle- and upper-income.

To determine the credit needs of the area, we conducted one new community contact and reviewed other community contacts initiated by the OCC and other regulators of financial institutions. The contacts indicated local financial institutions are generally meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

To analyze a bank's CRA performance, we evaluate five factors: 1) loan-to-deposit ratio; 2) percentage of lending within the bank's assessment area; 3) lending to businesses of different sizes and borrowers of different incomes; 4) geographic distribution of loans; and 5) response to complaints concerning the bank's CRA performance.

Loan-to-Deposit Ratio

We analyzed Harbor Bank's loan-to-deposit ratio over the last eight quarters (December 1997 through September 1999). During these eight quarters, the loan-to-deposit ratio ranged from a low of 49.17% to a high of 85.86%, with an average ratio of 69.54%.

We compared Harbor Bank's performance under this factor to other state and national banks located in Pierce and South King County with total assets less than \$100 million. The sample totaled seven banks with average assets of \$28 million and provided us a reasonable comparison. These banks had an average loan-to-deposit-ratio of 64.16% over the same period. Based on this comparison, Harbor Bank's loan-to-deposit ratio meets the standard for satisfactory performance.

Lending in the Assessment Area

During the assessment period, Harbor Bank originated 908 loans totaling \$42.6 million.⁴ To determine the bank's lending performance in its assessment area we selected a sample of both commercial and consumer automobile loans.

Business Lending

Our business sample consisted of 22 loans, which were originated during the assessment period and totaled \$1.5 million. We determined the demographic distribution based on the census tract associated with the business. The following table shows the distribution of the business loan sample inside and outside the assessment area.

⁴ The total number and dollar of loan originations includes renewals. The bank does not monitor new originations; consequently, we could not differentiate between originations and renewals.

Business Loan Sample

LOAN ORIGINATIONS	NUMBER OF LOANS	PERCENT OF TOTAL	AMOUNT OF LOANS	PERCENT BY DOLLAR VOLUME
INSIDE ASSESSMENT AREA	14	64%	\$1,093,922	71%
OUTSIDE ASSESSMENT AREA	8	36%	\$454,907	29%
TOTAL	22	100%	\$1,548,829	100%

As demonstrated above, the bank originated a majority of its business loans to businesses operating within the assessment area. Moreover, the bank disbursed a majority of its lending dollars within the assessment area.

Consumer Automobile Loans

We selected a sample of 20 consumer automobile loans that Harbor Bank originated during the assessment period. The sample totaled \$197,483. We determined the demographic distribution based on the census tract associated with the borrower. The following table shows the distribution of consumer automobile loans inside and outside the assessment area.

Consumer Automobile Loans

LOAN ORIGINATIONS	NUMBER OF LOANS	PERCENT OF TOTAL	AMOUNT OF LOANS	PERCENT BY DOLLAR VOLUME
INSIDE ASSESSMENT AREA	7	35%	\$82,326	42%
OUTSIDE ASSESSMENT AREA	13	65%	\$115,157	58%
TOTAL	20	100%	\$197,483	100%

As evidenced by the data, Harbor Bank did not originate a majority of its consumer automobile loans within the assessment area. However, Harbor Bank did originate a majority of its business loans within the assessment area. The bank's lending performance in its primary product line outweighs the consumer lending performance. Consequently, Harbor Bank's performance under this factor meets the standard for satisfactory.

The bank’s business lending performance outweighs the consumer lending performance for the following reasons. First, the bank is primarily a commercial lender. Commercial loans account for 70.5% of average gross loans. In addition, the bank markets itself as a commercial lender rather than a consumer lender. Second, the majority of consumer automobile loans resulted from referrals from an automobile dealership. This dealership advertises outside the bank’s assessment area and draws from a broad customer base, approximately a 30-mile radius, which includes many customers who reside outside the bank’s assessment area. The bank’s referral system with the dealership distorts the bank’s lending performance. For these reasons, we placed more emphasis on the bank’s lending to businesses within the assessment area. As the bank continues to establish its reputation within the community, we expect the lending to consumers within the assessment area to increase. Therefore, the bank’s lending within its assessment area meets the standard for satisfactory performance.

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

Under this factor, we evaluated the bank’s lending performance to borrowers of different incomes and businesses of different sizes. To determine the bank’s performance we used an additional sample of 6 business loans and 14 consumer automobile loans. Harbor Bank’s lending to small businesses and borrowers of different income levels meets the standard for satisfactory performance.

Distribution of Business and Farm Loans by Revenue Size of Business or Farm

To evaluate Harbor Bank’s performance, we compared the bank’s lending to small businesses in the assessment area to the demographics of the assessment area. A small business is a business or farm with gross annual revenues less than \$1 million. The loan sample totaled \$1.7 million. The bank originated the loans during the assessment period. The following table shows the distribution by business revenue size of the sample and compares it to the demographics of the assessment area.

Distribution of Business Loans by Revenue Size

GROSS BUSINESS & FARM REVENUES (\$000’S)	NUMBER OF BUSINESSES & FARMS IN ASSESSMENT AREA ⁵	PERCENT OF BUSINESSES & FARMS IN ASSESSMENT AREA	NUMBER OF LOANS FROM SAMPLE	PERCENT OF LOAN SAMPLE
\$0-\$1,000	2,000	95%	17	85%
OVER \$1,000	108	5%	3	15%
TOTAL	2,108	100%	20	100%

As evidenced by the data, Harbor Bank’s performance does not meet, but reasonably compares to, the demographics of the assessment area.

⁵ Data from 1999 Dun & Bradstreet Business Index.

Distribution of Loans to Borrowers of Different Income Levels

To analyze the bank's consumer lending, we selected a sample of 21 loans, which totaled \$221,417 and were originated during the assessment period. The borrowers all resided within the assessment area. We analyzed this sample to determine the loan distribution among borrowers of different income levels. The following table shows the distribution of these loans by borrower income level and compares it to the distribution of households in the assessment area by household income level.

Income Distribution of Consumer Automobile Loans

APPLICANT INCOME BASED ON UPDATED HUD MEDIAN INCOME⁶	PERCENT OF TOTAL HOUSEHOLDS⁷	NUMBER OF CONSUMER AUTOMOBILE LOANS	PERCENT OF CONSUMER AUTOMOBILE LOANS
LOW INCOME⁸	10.70%	2	10%
MODERATE INCOME⁹	10.60%	3	14%
MIDDLE INCOME¹⁰	17.35%	9	43%
UPPER INCOME¹¹	61.35%	7	33%
TOTAL	100%	21	100%

This data illustrates that the bank's performance compares to the demographics for low-income households. Moreover, the bank's performance exceeds the demographics for moderate-income households.

Harbor Bank demonstrated reasonable penetration among individuals of different income levels and businesses of different sizes. Consequently, the bank's performance meets the standard for satisfactory performance.

Geographic Distribution of Loans

We did not evaluate the bank's performance under this factor because the entire assessment area consists of upper-income census tracts. Consequently, we could not conduct a meaningful geographic distribution analysis.

⁶ The HUD Estimated Updated Median Income for this assessment area is \$48,900.

⁷ Data from 1990 US Census.

⁸ A low-income applicant earns less than 50% of the HUD Median Income.

⁹ A moderate-income applicant earns between 50% and 79% of the HUD Median Income.

¹⁰ A middle-income applicant earns between 80% and 119% of the HUD Median Income.

¹¹ An upper-income applicant earns at least 120% of the HUD Median Income.

Response to Complaints

Harbor Bank has not received any consumer complaints about its CRA performance.

Record of Complying with Antidiscrimination Laws

A concurrent fair lending examination did not identify any evidence of prohibited discriminatory lending practices. As part of our examination, we reviewed a sample of adverse action notices, approved credit applications, and examined lending policies and practices. We did not identify any violations involving illegal discrimination or any practices intended to discourage applicants from applying for credit.