

# **PUBLIC DISCLOSURE**

**June 13, 2005**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Northwest Business Bank  
Certificate Number: 34893**

**1100 Olive Way, Suite 102  
Seattle, Washington 98101**

**Federal Deposit Insurance Corporation  
25 Jessie Street at Ecker Square, Suite 2300  
San Francisco, California 94105**

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

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## GENERAL INFORMATION

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

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Northwest Business Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **June 13, 2005**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

## INSTITUTION RATING

***INSTITUTION'S CRA RATING:*** This institution is rated **Satisfactory**.

Factors supporting the satisfactory rating of Northwest Business Bank's CRA performance include the following:

- The bank's loan-to-deposit ratio, based on the 19 quarters preceding this evaluation, is reasonable given the institution's size, financial conditions, and assessment area credit needs.
- The bank originated a majority of its loans within the assessment area.
- The distribution of borrowers reflects a reasonable penetration among businesses of different sizes.
- The geographic distribution of small business loans reflects excellent dispersion throughout the assessment area.
- The bank has not received any CRA-related complaints since the previous evaluation.

## DESCRIPTION OF INSTITUTION

Northwest Business Bank (NWBB) is a primarily commercial bank headquartered in Seattle, Washington. The bank opened for business in December 8, 1998, as Northwest International Bank. In February 2003, the bank changed its name to Northwest Business Bank. The bank is owned by a holding company, NWB Financial Corporation. It operates one branch in Seattle and one branch in Bellevue, which opened in May 2003. The bank provides customers with a full range of business and personal banking products and services.

As of March 31, 2005, the bank reported \$150,813,000 in total assets, \$117,584,000 in total deposits, \$125,657,000 in total loans, and \$16,509,000 in total equity. The composition of the bank's loan portfolio as of March 31, 2005, is reflected in Table 1.

**Table 1 – Loan Distribution as of March 31, 2005**

<b>Loan Type</b>	<b>Dollar Amount (000s)</b>	<b>Percentage of Total Loans (%)</b>
Construction and Land Development	9,173	7.3%
Secured by Farmland	0	0.0%
1-4 Family Residential	7,688	6.1%
Multifamily Residential	8,516	6.8%
Commercial Real Estate	69,173	55.1%
<b>Total Real Estate Loans</b>	<b>94,550</b>	<b>75.3%</b>
Commercial and Industrial	26,932	21.4%
Agricultural Production	0	0.0%
Consumer	3,169	2.5%
Other	1,006	0.8%
Less Unearned Income	0	0.0%
<b>Total Loans</b>	<b>125,657</b>	<b>100.0%</b>

*Source: 03/31/2005 Consolidated Report of Condition*

The figures in Table 1 reveal commercial lending as the bank’s primary focus. Commercial real estate and commercial and industrial loans compose 76.5 percent of the portfolio. There are no regulatory or legal constraints preventing Northwest Business Bank from helping to meet the credit needs of its assessment area.

## **DESCRIPTION OF ASSESSMENT AREA**

Northwest Business Bank has identified King County as its assessment area. King County is part of the Seattle-Bellevue-Everett Metropolitan Division (MD) 42644, a component of the Seattle-Tacoma-Bellevue Metropolitan Statistical Area (MSA) 42660. The assessment area is consistent with regulatory guidelines and does not arbitrarily exclude low- or moderate-income areas. According to the 2000 census data, the assessment area contains 373 census tracts and a population of 1,737,034. The U.S. Department of Housing and Urban Development (HUD) estimated \$69,500 to be the median family income for 2004 for the MSA. Details of the income and population levels of the census tracts within the assessment area are shown in Table 2.

**Table 2 – Assessment Area Census Tract Detail**

<b>Income Level</b>	<b># Tracts</b>	<b>% Tracts</b>	<b>% Population</b>	<b>% of Businesses</b>
<b>Low</b>	9	2.4%	2.1%	2.6%
<b>Moderate</b>	74	19.9%	20.7%	21.5%
<b>Middle</b>	190	50.9%	50.9%	45.0%
<b>Upper</b>	100	26.8%	26.3%	30.9%
<b>Totals</b>	<b>373</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

*Source: 2000 U.S. Census, 2003 D&B*

## **Economic Conditions**

The greater Seattle area economy is showing job growth well above the national average, although employment is still below pre-recession levels according to Economy.com. Business demands are improving and many industries are increasing job opportunities. The service sector has experienced an accelerated growth over the past years and has been a major source of employment. Major employers in this assessment area include The Boeing Company, Microsoft Corporation, and the Port of Seattle.

The unemployment rate in the greater Seattle area at the end of 2004 was 5.2 percent, which was less than Washington State's unemployment rate of 6.2 percent. Employment in the Seattle area is predicted to peak at the end of 2005 with unemployment rates falling steadily over the next few years. Area retailers will benefit as Boeing stabilizes and rehires employees, biotech industries emerge, and Microsoft dividends boost consumer-oriented industries. In the long run, well paying high-tech companies and a skilled labor force will lead the economy's growth above the national average.

## **Community Contacts**

A community contact was conducted with two executives from an economic development organization. The organization assists local businesses to thrive while attracting innovative new companies to the area. Both contacts expressed a need for more assistance to startup businesses, especially for bio-tech and other emerging technologies. The contacts encouraged local financial institutions to help support programs that support start-ups.

# **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

## **Scope of the Evaluation**

Examiners reviewed a sample of commercial and commercial real estate loans originated in calendar years 2003 and 2004 because they represent the main lending focus of the institution. The 2003 sample consisted of 32 commercial loans from a potential universe of 84 loans. For 2004, the sample consisted of 31 commercial loans from a potential universe of 108 loans.

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

Northwest Business Bank's loan-to-deposit ratio is reasonable considering seasonal variations and taking into account lending-related activities given the institution's size, financial condition, and assessment area credit needs.

Examiners use the loan-to-deposit ratio to evaluate an institution's level of lending and its ability to lend within the assessment area. The ratio of net loans to deposits identifies the percentage of net deposited funds loaned by a bank to its customers.

The bank's loan-to-deposit ratio indicates a good responsiveness to area credit needs. The prior 19 quarter average since Northwest Business Bank's previous examination of August 7, 2000, to March 31, 2005, equaled 82.9 percent. Within that timeframe, the high was 105.5 percent as of March 31, 2005, and the low was 64.0 percent as of September 30, 2000.

Table 3 compares the loan-to-deposit ratios of Northwest Business Bank to similarly situated banks in terms of assessment area, size, asset structure, and loan products as of March 31, 2005.

**Table 3 – Loan-to-Deposit Ratio Comparisons**

Bank	3/31/2005 Total Assets (000s)	3/31/2005 LTD Ratio	Prior 19 Quarter Average from 09/30/2000
Northwest Business Bank	150,813	105.5%	82.9%
Comparable Bank #1	199,287	82.2%	67.1%
Comparable Bank #2	237,160	91.4%	87.6%

*Source: Reports of Condition*

The loan-to-deposit ratios are an average of the prior 19 consecutive quarters, accounting for seasonal variations. Northwest Business Bank outperformed comparable bank #1 on an average during the prior 19 quarters and was slightly lower than comparable bank #2.

### **Lending in the Assessment Area**

Northwest Business Bank originated a majority of its commercial and commercial real estate loans to borrowers located in the assessment area.

Table 4 shows that 81.0 percent, by number, and 79.1 percent, by dollar volume, of the evaluated sample loans were originated within the bank's assessment area.

**Table 4 – Distribution of Loans Inside and Outside the Assessment Area**

Loan Category	Number of Loans					Dollar Volume in (000s)				
	Inside		Outside		Total	Inside		Outside		Total Dollar
	#	%	#	%		\$	%	\$	%	
2003 Commercial	26	81.2%	6	18.8%	32	6,909	77.7%	1,985	22.3%	8,894
2004 Commercial	25	80.6%	6	19.4%	31	6,712	80.7%	1,610	19.3%	8,322
<b>Total</b>	<b>51</b>	<b>81.0%</b>	<b>12</b>	<b>19.0%</b>	<b>63</b>	<b>13,621</b>	<b>79.1%</b>	<b>3,595</b>	<b>20.9%</b>	<b>17,216</b>

*Source: Sampling of Bank Records*

### **Borrower Profile**

The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among businesses of different sizes.

Table 5 represents comparative information based on businesses with gross annual revenues under and over \$1 million. A small business is a business with gross annual revenues of \$1 million or less. The second column represents an estimate from Dun & Bradstreet (D&B) of the percentages of businesses in the assessment area. The third column including the 2003 aggregate data represents the performance of lenders reporting small business loans under the Community Reinvestment Act. The remaining columns present bank data.

**Table 5 – Distribution of Small Business Loans by Gross Annual Revenue**

Gross Annual Revenues	D&B (%)	Aggregate Lending Data (% of #)	NWBB 2003		NWBB 2004		Total	
	2003	2003	#	%	#	%	#	%
≤ \$1,000,000	66.5%	36.7%	16	61.5%	13	52.0%	29	56.9%
> \$1,000,000	6.2%	63.3%	10	38.5%	12	48.0%	22	43.1%
No Response or Unknown	27.3%	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>Total</b>	100.0%	100.0%	26	100.0%	25	100.0%	51	100.0%

*Source: Bank Data, Aggregate Data, and D&B*

Although the bank’s lending to small businesses in 2003 was slightly lower at 61.5 percent as compared to the D&B’s estimates of 66.5 percent, the bank’s performance is higher than the aggregate data at 36.7 percent and reflects reasonable distribution among businesses of different sizes.

D&B estimates and aggregate information are unavailable for 2004. The bank’s lending performance in 2004 shows a declining trend in both the number and percentage of loans originated to businesses with gross annual revenues of \$1 million or less as compared to the bank’s results in 2003. Management believes that the addition of the Bellevue branch could have impacted the increase in lending in 2004 to businesses with gross annual revenues over \$1 million and is reflective of the bank’s focus on large businesses, as well as small businesses.

Table 6 details the distribution of sampled businesses with gross annual revenues. Of significance, the bank granted 23.1 percent and 32.0 percent of loans to very small businesses with gross annual revenues of under \$100,000 in 2003 and 2004, respectively.

**Table 6 – Lending to Businesses of Different Sizes (Number)**

Business Gross Annual Revenues	NWBB 2003		NWBB 2004	
	#	%	#	%
Less than \$100,000	6	23.1%	8	32.0%
\$100,000-\$250,000	3	11.5%	1	4.0%
\$250,001-\$500,000	2	7.7%	4	16.0%
\$500,001-\$1,000,000	5	19.2%	0	0.0%
Over \$1,000,000	10	38.5%	12	48.0%
<b>Total</b>	26	100.0%	25	100.0%

*Source: Bank Data*

## Geographic Distribution of Loans

Northwest Business Bank's geographic distribution of small business loans reflects excellent dispersion throughout the assessment area.

Examiners reviewed the geographic distribution of sampled loans to assess the bank's performance in meeting the needs of its assessment area, including low- and moderate-income geographies. For comparison, D&B estimated percentages of businesses located within census tracts by income level were used, as well as the aggregate data of lenders reporting small business loans under the Community Reinvestment Act. Table 7 details the assessment area's distribution of loans to small businesses by census tract income level.

**Table 7 – Quantity Distribution of Business Loans by Income Category of Census Tract**

Census Tract Income Level	D& B (%)	Aggregate Lending Data (% of #)	NWBB 2003		NWBB 2004		Total	
	2003	2003	#	%	#	%	#	%
	<b>Low</b>	2.5%	2.5%	4	15.4%	5	20.0%	9
<b>Moderate</b>	19.7%	20.1%	6	23.1%	2	8.0%	8	15.7%
<b>Middle</b>	46.3%	46.2%	4	15.4%	3	12.0%	7	13.7%
<b>Upper</b>	31.5%	31.2%	12	46.1%	15	60.0%	27	52.9%
<b>Total</b>	100.0%	100.0%	26	100.0%	25	100.0%	51	100.0%

*Source: Bank Data, Aggregate Data, and D&B*

During 2003, Northwest Business Bank's lending activities in low- and moderate-income census tracts significantly exceeded both D&B and aggregate percentages and reflects excellent performance. Lending to low-income census tracts comprised 15.4 percent of total loans in 2003, compared with 2.5 percent lending in low-income census tracts reported for both the D&B estimates and the aggregate data for the same year. The bank's performance of 23.1 percent lending in 2003 within moderate-income census tracts also exceeded the D&B estimates of 19.7 percent and the aggregate data of 20.1 percent. From a broader perspective, the bank's performance during 2003 in low- and moderate-income geographies combined at 38.5 percent exceeds the performance of the D&B estimates and aggregate data at 22.2 percent and 22.6 percent, respectively.

The bank's performance in 2004 shows an increase in the percentage of penetration in the low-income tracts as compared to the bank's results in 2003, while the penetration in moderate-income tracts shows a decrease from the 2003 performance. In 2004, the bank maintained a strong penetration of 20.0 percent in the low-income geographies, while increasing their presence in the upper-income levels. The bank's geographic distribution in 2004 is a result of their marketing strategy to serve customers in all income levels. Overall, Northwest Business Bank's penetration in the low- and moderate-income tracts is excellent compared to that of D&B and aggregate percentages, with exceptionally high lending percentages of lending to low- and moderate-income tracts in 2003.

### **Investments and Services**

Investments and services were not reviewed as a part of this evaluation.

### **Response to Complaints**

Northwest Business Bank has not received any CRA-related complaints since the prior examination.

### **Compliance with Anti-discrimination Laws and Regulations**

No violations of the substantive provisions of the anti-discrimination laws and regulations were identified during the examination.