

PUBLIC DISCLOSURE

August 2, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Financial Northwest Bank
Certificate Number: 29058

201 Wells Avenue South
Renton, Washington 98057

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
San Francisco Regional Office

25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

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: This institution is rated **Outstanding**.

An institution in this group has an outstanding record of helping to meet the credit needs of its assessment area (AA), including low- and moderate-income (LMI) neighborhoods, in a manner consistent with its resources and capabilities.

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding		X	X
High Satisfactory	X		
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

* The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.

The Lending Test is rated High Satisfactory.

First Financial Northwest Bank’s (FFNWB’s) lending levels reflect good responsiveness to AA credit needs. A high percentage of loans are made in the institution’s AA. The geographic distributions of loans reflects excellent penetration throughout the AA, while the distribution of borrowers reflects, given the product lines offered by the institution, adequate penetration among retail customers of different income levels and business customers of different sizes. The institution exhibits a good record of serving the credit needs of the most economically disadvantaged areas of its AA, low-income individuals, and very small businesses, consistent with safe and sound banking practices. The institution is a leader in making community development (CD) loans and uses innovative or flexible lending practices in order to serve the AA credit needs.

The Investment Test is rated Outstanding.

FFNWB has an excellent level of qualified CD investment and grants, often in a leadership position, particularly those that are not routinely provided by private investors. The institution exhibits good responsiveness to credit and CD needs and occasionally uses innovative or complex investments to support CD initiatives.

The Service Test is rated Outstanding.

Delivery systems are accessible to essentially all portions of FFNWB’s AA. To the extent changes have been made, the institution’s record of opening and closing branches has improved the accessibility of its delivery systems, particularly in LMI geographies and to LMI individuals. Services, including branch hours, do not vary in a way that inconveniences certain portions of the AA, particularly LMI geographies or individuals. Lastly, the institution is a leader in providing CD services.

DESCRIPTION OF INSTITUTION

FFNWB is a community-based institution that is headquartered in Renton, Washington, and is wholly owned by First Financial Northwest Incorporated, a one-bank holding company. FFNWB’s affiliate, First Financial Diversified, is a trustee for deeds of trust and does not offer any products or services; therefore, all lending activity within this evaluation is directly from FFNWB. FFNWB did not have any merger or acquisition activity since the previous evaluation. The institution received a Satisfactory rating at the previous FDIC Performance Evaluation dated May 21, 2018, using Interagency Large Institution Examination Procedures.

The institution offers a broad range of products and services throughout a network of 15 full-service branches and 16 proprietary ATMs in Washington. FFNWB’s primary business focus continues to be commercial real estate, particularly one-to-four family investment properties, though the institution also originates commercial and industrial loans and participated in the SBA’s Paycheck Protection Program (PPP) during the evaluation period. Deposit services include interest- and non-interest bearing checking accounts, traditional savings, and timed-deposit products.

FFNWB’s assets total to \$1.4 billion as of June 30, 2021, including \$1.1 billion in total loans and \$190.2 million in total securities. Total deposits for FFNWB amount to \$1.2 billion. Assets grew 16.9 percent from the prior evaluation primarily due to a 30.1 percent growth in deposits over the review period. Deposit growth is attributable to economic relief payments and the opening of five branches during the review period; see the Service Test for branch details. The institution’s loan portfolio remains heavily focused on real estate lending; see the following table.

Loan Portfolio Distribution as of 06/30/2021		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	108,715	9.9
Secured by Farmland	-	-
Secured by 1-4 Family Residential Properties	375,418	34.2
Secured by Multifamily (5 or more) Residential Properties	143,092	13.0
Secured by Nonfarm Nonresidential Properties	370,547	33.8
Total Real Estate Loans	997,772	91.0
Commercial and Industrial Loans	44,970	4.1
Agricultural Production and Other Loans to Farmers	-	-
Consumer Loans	32,898	3.0
Obligations of State and Political Subdivisions in the U.S.	2,514	0.2
Other Loans	18,364	1.7
Lease Financing Receivable (net of unearned income)	-	-
Less: Unearned Income	-	-
Total Loans	1,096,518	100.0
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that affect the bank’s ability to meet the AA credit needs.

DESCRIPTION OF ASSESSMENT AREA

FFNWB’s single AA consists of three contiguous counties in the Puget Sound area of Washington as follows:

- All 398 census tracts of King County and all 172 census tracts of Snohomish County, which are part of the Seattle-Bellevue MSA; and
- All 151 census tracts of Pierce County, which makes up the entirety of the Tacoma-Lakewood MSA.

Pierce County was added to the AA as of March 2020. The Seattle-Bellevue and Tacoma-Lakewood MSAs are both part of the Seattle-Tacoma CSA; as performance was generally consistent between the two MSAs, the CSA is presented throughout this evaluation.

Economic and Demographic Data

The below tables illustrate key demographic characteristics of the AA. The first table is demographic data from 2018 through 2019, without Pierce County, and the second table demonstrates the demographics of the current AA, which includes Pierce County.

Demographic Information of the Assessment Area 2018-2019						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	549	5.6	22.8	41.5	29.1	0.9
Population by Geography	2,792,409	6.0	22.9	41.3	29.5	0.3
Housing Units by Geography	1,165,983	5.8	22.4	41.2	30.4	0.2
Owner-Occupied Units by Geography	651,888	3.0	18.1	44.8	34.1	0.0
Occupied Rental Units by Geography	442,529	9.7	28.4	36.2	25.3	0.4
Vacant Units by Geography	71,566	6.7	24.7	40.5	27.9	0.2
Businesses by Geography	245,638	6.0	19.2	37.5	36.9	0.5
Farms by Geography	5,103	4.2	18.0	46.2	31.5	0.1
Family Distribution by Income Level	675,378	21.5	17.5	20.6	40.4	0.0
Household Distribution by Income Level	1,094,417	24.1	16.1	17.8	42.0	0.0
Median Family Income MSA - 42644 Seattle-Bellevue-Kent, WA		\$92,317	Median Housing Value			\$380,393
			Median Gross Rent			\$1,228
			Families Below Poverty Level			6.9%

Source: 2015 ACS and 2019 D&B Data
Due to rounding, totals may not equal 100.0%
(*) The NA category consists of geographies that have not been assigned an income classification.

Demographic Information of the Assessment Area 2020						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	721	5.5	22.6	42.9	28.2	0.8
Population by Geography	3,614,361	5.6	22.7	43.1	28.3	0.3
Housing Units by Geography	1,497,352	5.6	22.4	42.9	28.9	0.1
Owner-Occupied Units by Geography	837,048	2.6	17.8	46.2	33.4	0.0
Occupied Rental Units by Geography	560,955	9.8	28.7	38.3	22.8	0.3
Vacant Units by Geography	99,349	6.7	25.6	41.7	25.8	0.2
Businesses by Geography	399,295	5.6	18.6	38.8	36.6	0.4
Farms by Geography	7,243	3.7	17.9	47.3	30.9	0.1
Family Distribution by Income Level	877,774	21.2	17.6	20.8	40.4	0.0
Household Distribution by Income Level	1,398,003	23.7	16.3	18.2	41.8	0.0
Median Family Income MSA - 42644 Seattle-Bellevue-Kent, WA		\$92,317	Median Housing Value			\$347,742
Median Family Income MSA - 45104 Tacoma-Lakewood, WA		\$71,304	Median Gross Rent			\$1,191
			Families Below Poverty Level			7.4%
<i>Source: 2015 ACS and 2020 D&B Data</i>						
<i>Due to rounding, totals may not equal 100.0%</i>						
<i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

The above tables demonstrate that median housing values are high compared to median income levels, suggesting that housing within the AA is not affordable. Unemployment in the AA is shown in the following table and demonstrates that while prior to the pandemic, unemployment was lower than national and generally in line with Washington state averages, all counties were above Washington and only King County remained below national averages in 2020.

Unemployment Rates			
Area	2018	2019	2020
	%	%	%
King County	3.3	2.6	7.5
Snohomish County	3.6	2.8	8.4
Pierce County	-	-	9.6
Washington State	3.4	3.1	6.5
National	3.9	3.7	8.1
<i>Source: Bureau of Labor Statistics ; ‘ - ’ indicates county was not included in AA for applicable year</i>			

Per Moody’s Analytics, the economic recovery from the COVID-19 pandemic for the counties of King and Snohomish is uneven with Pierce County lagging behind. Factors that are affecting the AA stem from supply chain constraints and layoffs in the aerospace industry that have ultimately impacted the manufacturing and industrial production sectors within the AA. The top three employers are Amazon, Boeing Company, and Joint Base Fort Lewis-McChord.

Competition

The level of competition for financial services is high within the AA. According to the 2020 FDIC Deposit Market Share report, FFNWB ranked 18th out of 47 institutions with 0.9 percent of the deposit market share. Among the same data, FFNWB has 15 of 846 branches within the AA.

Community Contact

Examiners reviewed a recent community contact of an organization that provides planning and housing services to residents in the AA. The contact stated that although small businesses have been significantly impacted by the pandemic, affordable housing continues to represent the community's primary credit need. The contact would also like to see more institutions providing technical assistance by volunteering to serve with community organizations.

Credit and Community Development Needs and Opportunities

Considering information from the community contact, the bank's strategy, and demographic and recent economic data, examiners determined that affordable housing lending represents a primary credit need for the AA. The high rental rates and costs for homeownership within the AA support this conclusion. There are also opportunities for financial institutions to provide technical assistance with community organizations and to generate more creative financial instruments for financing small businesses.

SCOPE OF EVALUATION

General Information

Examiners used Interagency Large Institution Examination Procedures to evaluate FFNWB's CRA performance. This evaluation covers the period from the prior evaluation dated May 21, 2018, through the current evaluation dated August 2, 2021.

Activities Reviewed

Based on the bank's business strategy and the number and dollar of loans originated during the evaluation period, home mortgages represent FFNWB's major product line and contribute greater weight to Lending Test conclusions. As a result of significant PPP lending during the evaluation period, small business loans represent a secondary product line at this evaluation. The institution did not originate any small farm loans during the review period and did not request the inclusion of consumer loans; therefore, these loan types are excluded from the evaluation.

All home mortgages and small business loans reported on the 2018, 2019, and 2020 HMDA loan application registers and CRA loan registers, respectively, were analyzed to form conclusions; see the following table. However, as 2018 home mortgage and small business lending performance is generally consistent with 2019 lending performance, 2018 activity is not presented in this evaluation.

Loan Products Reviewed				
Loan Category	Universe		Reviewed	
	#	\$(000s)	#	\$(000s)
Home Mortgage	569	380,598	569	380,598
Small Business	1,103	76,886	1,103	76,886
<i>Source: HMDA Reported Data; CRA Reported Data</i>				

Home mortgage performance in 2018, 2019, and 2020 was compared to applicable aggregate performance of other reporting institutions operating within the AA and to relevant demographic data from the 2015 ACS census data. Small business performance in 2018 and 2019 was compared to applicable aggregate data and to relevant D&B demographic data, while 2020 small business performance was compared only to demographic data, as 2020 small business aggregate data is not yet available.

More weight is placed on the lending performance in comparison to aggregate data, as this is a better measure of actual lending opportunity within the AA. Additionally, while lending by both number and dollar volume of loans were analyzed, performance by number of loans carries greater weight, as it provides a better representation of the number of individuals and businesses served.

All CD loan, investment, and service activity from the previous evaluation through the current evaluation date were considered in forming CD conclusions and are presented in this evaluation. Examiners also reviewed delivery systems for providing retail banking services, including branches and alternative delivery systems; the institution’s record of opening and closing branches during the evaluation period; and retail banking products and services targeted to LMI individuals and small businesses within the AA.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

FFNWB’s Lending Test performance is rated “High Satisfactory.” Additionally, FFNWB’s Payment Deferral program augments their lending performance.

Lending Activity

FFNWB’s lending levels reflect good responsiveness to the AA credit needs. FFNWB’s home mortgage lending activity reflects the rise and decline of interest rates between late 2018 and early 2020. Lending by number and dollar was stable between 2018 and 2019; however, lending increased by number and decreased by dollar in 2020, reflecting the increased demand for refinancing transactions due to lower interest rates. Refer to Assessment Area Concentration table for detail.

According to the 2018 HMDA aggregate data, FFNWB ranked 93rd out of 596 institutions with 0.1 percent by number and 0.2 percent by dollar of the home mortgage lending market share. In 2019, FFNWB ranked 116th out of 621 institutions with 0.1 percent by number and 0.2 percent by dollar of the home mortgage lending market share. As of 2020, FFNWB ranks 159th out of 711

institutions with 0.1 percent of the home mortgage lending market share by number and dollar within the AA.

Small business lending increased significantly by number and dollar over the review period, particularly from 2019 to 2020; refer to Assessment Area Concentration table for specific detail. The substantial increase in small business lending is directly attributable to the bank’s participation in the PPP. Of the total 2020 small business loans, 422 loans amounting to \$37.6 million were through the PPP.

According to the 2018 small business aggregate data, FFNWB ranked 34th out of 134 reporting institutions, with a market share of less than 0.1 percent by number and 0.6 percent by dollar. In 2019, the most recent year for which data is available, FFNWB ranks 28th out of 134 reporting institutions, with a market share of 0.1 percent by number and 0.8 percent by dollar.

Assessment Area Concentration

A high percentage of loans are made in FFNWB’s AA This conclusion is based on a high percentage of home mortgage and small business loans originated within the AA by number and dollar, with particularly strong performance noted in 2020 due to the addition of Pierce County to the AA; see the following table.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollars Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2018	149	82.3	32	17.7	181	107,066	92.1	9,157	7.9	116,223
2019	135	74.6	46	25.4	181	133,471	83.6	26,276	16.4	159,747
2020	192	92.8	15	7.2	207	99,106	94.7	5,522	5.3	104,628
Subtotal	476	83.7	93	16.3	569	339,643	89.2	40,955	10.8	380,598
Small Business										
2018	19	67.9	9	32.1	28	6,916	66.8	3,438	33.2	10,354
2019	36	72.0	14	28.0	50	10,457	61.1	6,663	38.9	17,120
2020	434	95.2	22	4.8	456	45,068	91.2	4,344	8.8	49,412
Subtotal	489	91.6	45	8.4	534	62,441	81.2	14,445	18.8	76,886
Total	965	87.5	138	12.5	1,103	402,084	87.9	55,400	12.1	457,484

Source: HMDA Reported Data; CRA Reported Data

Geographic Distribution

The geographic distribution of loans reflects excellent penetration throughout the AA. Excellent home mortgage and good small business lending performance support this conclusion.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects excellent dispersion throughout the AA; see the following table.

The bank's lending in low-income census tracts was more than double aggregate in 2019 and triple aggregate in 2020, while lending in moderate-income tracts was in line with peer in 2019 and increased significantly in 2020 to well above peer. FFNB's positive trend in LMI tract lending over the review period is particularly notable, as the slight decline in peer lending percentages in LMI tracts represents shrinkage in actual opportunity for lending over the same period.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	3.0	2.8	8	5.9	3,146	2.4
2020	2.6	2.1	12	6.3	5,695	5.7
Moderate						
2019	18.1	18.4	28	20.7	25,460	19.1
2020	17.8	16.5	52	27.1	16,822	17.0
Middle						
2019	44.8	46.6	44	32.6	27,068	20.3
2020	46.2	47.2	80	41.7	34,865	35.2
Upper						
2019	34.1	32.1	54	40.0	62,897	47.1
2020	33.4	34.2	47	24.5	39,524	39.9
Not Available						
2019	0.0	0.0	1	0.7	14,900	11.2
2020	0.0	0.0	1	0.5	2,200	2.2
Totals						
2019	100.0	100.0	135	100.0	133,471	100.0
2020	100.0	100.0	192	100.0	99,106	100.0

*Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%*

Small Business Loans

The geographic distribution of small business loans reflects good dispersion throughout the AA; see the following table.

In 2019, FFNB's lending to low-income census tracts was slightly above peer and demographics, while lending to moderate-income tracts was well above both metrics. Performance declined slightly in 2020, but the institution's percentage of lending in both LMI tracts continued to outperform demographic data.

Geographic Distribution of Small Business Loans						
Tract Income Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	6.0	6.2	3	8.3	1,740	16.6
2020	5.6	--	34	7.8	3,860	8.6
Moderate						
2019	19.2	19.0	12	33.3	2,922	27.9
2020	18.6	--	105	24.2	14,328	31.8
Middle						
2019	37.5	38.1	11	30.6	2,091	20.0
2020	38.8	--	170	39.2	13,057	29.0
Upper						
2019	36.9	36.3	10	27.8	3,704	35.4
2020	36.6	--	124	28.6	13,373	29.7
Not Available						
2019	0.5	0.5	0	0.0	0	0.0
2020	0.4	--	1	0.2	450	1.0
Totals						
2019	100.0	100.0	36	100.0	10,457	100.0
2020	100.0	--	434	100.0	45,068	100.0
<i>Source: 2019 & 2020 D&B Data; Bank Data; 2019 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

Borrower Profile

The distribution of borrowers reflects, given the product lines offered by the institution, adequate penetration among retail customers of different income levels and business customers of different sizes. The conclusion is supported by poor home mortgage lending performance and excellent small business lending performance.

Home Mortgage Loans

The distribution of borrowers reflect, given the demographics of the AA, poor penetration to individuals of different income levels. This performance is consistent with that of the prior evaluation, where the borrower profile of home mortgage lending was also poor.

While the institution's lending to low-income borrowers was in line with peer data in 2019, performance declined to below peer in 2020. Further, lending to moderate-income borrowers over the review period is particularly poor; in both 2019 and 2020, the bank's percentage of lending to these borrowers was less than half of aggregate. The institution attempted to improve current period performance by purchasing home mortgages made to LMI individuals; however, lending percentages remained notably below peer and demographic data despite these efforts.

Poor performance is primarily attributable to the relatively high percentage of loans where borrower income is not available, as a significant number of the institution’s loans on the HMDA loan application register are reported without incomes due to the bank’s particular niche of one-to-four family investment property lending to non-natural persons. However, even when LMI borrower lending percentages are adjusted to exclude these “not available” income loans, the institution’s performance remains below peer.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2019	21.5	4.9	6	4.4	890	0.7
2020	21.2	4.2	5	2.6	963	1.0
Moderate						
2019	17.5	15.2	8	5.9	1,400	1.0
2020	17.6	15.4	11	5.7	3,147	3.2
Middle						
2019	20.6	23.8	8	5.9	1,744	1.3
2020	20.8	23.9	20	10.4	6,290	6.3
Upper						
2019	40.4	44.7	63	46.7	49,373	37.0
2020	40.4	44.1	76	39.6	51,513	52.0
Not Available						
2019	0.0	11.4	50	37.0	80,065	60.0
2020	0.0	12.4	80	41.7	37,193	37.5
Totals						
2019	100.0	100.0	135	100.0	133,471	100.0
2020	100.0	100.0	192	100.0	99,106	100.0

Source: 2015 ACS; Bank Data, 2019 & 2020 HMDA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0%

Small Business Loans

The distribution of borrowers reflects, given the demographics of the AA, excellent penetration among businesses of different sizes. In 2019, the percentage of loans to businesses with gross annual revenues of \$1.0 million or less exceeded peer by 9.5 percent and was below demographics. While lending percentages for 2020 were significantly impacted by the influx of loans reported without revenues, the ratio of loans originated to businesses with revenues of \$1.0 million or less to businesses with revenues of greater than \$1.0 million is similar to that of prior years. Further, a significant majority of the loans reported as revenue not available were PPP loans, which were particularly impactful to many small businesses throughout the AA. Considering these factors, overall lending to small businesses is excellent.

Distribution of Small Business Loans by Gross Annual Revenue Category						
Gross Revenue Level	% of Businesses	Aggregate Performance % of #	#	%	\$(000s)	%
<=\$1,000,000						
2019	87.1	48.8	21	58.3	6,381	61.0
2020	90.2	--	20	4.6	5,927	13.2
>\$1,000,000						
2019	4.8	--	9	25.0	3,476	33.2
2020	3.4	--	9	2.1	2,947	6.5
Revenue Not Available						
2019	8.1	--	6	16.7	600	5.7
2020	6.4	--	405	93.3	36,194	80.3
Totals						
2019	100.0	100.0	36	100.0	10,457	100.0
2020	100.0	--	434	100.0	45,068	100.0
<i>Source: 2019 & 2020 D&B Data; Bank Data; 2019 CRA Aggregate Data; "--" data not available. Due to rounding, totals may not equal 100.0%</i>						

Innovative or Flexible Lending Practices

The institution uses innovative or flexible lending practices in order to serve AA credit needs; see the following table. Performance increased significantly from the prior evaluation, where FFNBW made 6 innovative and flexible loans totaling \$625,000.

Additionally, the bank added several new loan programs since the previous evaluation. Most notable of these new programs is the PPP, which accounts for over 94.5 percent of the total innovative and flexible program loans during the review period. Congressional action created this SBA-backed program in 2020 to help businesses keep their workforce employed during the coronavirus pandemic. The program was especially targeted to assist LMI, very small, and/or underserved businesses, and qualifying borrowers are eligible for loan forgiveness if the funds were used to maintain employment levels and support payroll expenses. As such, the bank's participation in this program was particularly impactful in supporting economic development and stabilizing the businesses of the AA during the pandemic.

Innovative or Flexible Lending Programs										
Type of Program	2018		2019		2020		2021		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
PPP Loans	-	-	-	-	462	51,593	261	25,567	723	77,160
SBA 7(a) Program	-	-	1	350	4	540	-	-	5	890
HomeSight/Habitat	3	302	7	1,023	6	1,467	6	1,665	22	4,457
WCRA Participations	7	340	5	525	-	-	3	475	15	1,340
Totals	10	642	13	1,898	472	53,600	270	27,707	765	83,847

Source: Bank Data from 05/21/2018 through 08/02/2021; "WCRA" refers to the Washington Community Reinvestment Association

In addition to the above programs, the bank also granted loan payment deferrals for 147 customers in 2020 to address consumer hardships deriving from the COVID-19 pandemic. The total amount of payment deferrals granted in 2020, which includes both principal and interest, equates to \$5.2 million.

Community Development Loans

FFNWB is a leader in making CD loans. Total CD lending dollars represent 7.8 percent of average total assets and 9.5 percent of average total loans. All metrics improved since the prior evaluation period, where the bank originated 43 CD loans totaling \$69.6 million, which represented 6.6 percent of total assets and 8.5 percent of total loans.

The majority of the CD loans supported affordable housing initiatives, demonstrating the bank's responsiveness to meeting the primary credit need identified by a community contact within the AA. The following table illustrates the bank's CD lending activities by year and purpose.

Community Development Lending										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2018	13	15,681	-	-	-	-	-	-	13	15,681
2019	19	37,269	-	-	-	-	1	14,900	20	52,169
2020	6	16,110	-	-	9	12,920	-	-	15	29,030
YTD 2021	4	3,954	-	-	2	2,191	-	-	6	6,145
Total	42	73,014	-	-	11	15,111	1	14,900	54	103,025

Source: Bank Data from 5/21/2018 through 8/2/2021

Below are notable examples of qualified CD loans:

- In 2019, FFNWB originated a \$14.9 million loan to revitalize a low-income census tract in a designated Opportunity Zone in King County by funding the construction of a mixed-used building that contains both retail and residential space for tenants.
- In 2018, FFNWB originated an \$8.4 million loan to fund the construction of a multi-family building that provides affordable housing to LMI individuals.

- In 2019, FFNWB originated a \$6.5 million loan to finance a multi-family property that provides affordable housing to LMI individuals.

INVESTMENT TEST

The Investment Test is rated “Outstanding.”

Investment and Grant Activity

The institution has an excellent level of qualified CD investments and grants, often in a leadership position, particularly those that are not routinely provided by private investors. Qualified CD investments during the evaluation period represent 16.6 percent of average total securities and 1.8 percent of average total assets. Performance improved from the prior evaluation, where the bank made 45 investments and grants totaling \$13.2 million, representing 10.1 percent of average total securities and 1.7 percent of average total assets.

Of the total, 15 debt or equity investments amounting to \$14.2 million are new since the prior evaluation. Additionally, all investment and donation dollars targeted affordable housing and community service initiatives—identified CD needs of the AA. These factors demonstrate management’s current period responsiveness to the specific needs of the AA.

Qualified Investments										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	6	5,672	2	1,606	-	-	-	-	8	7,277
2018 (Partial)	2	2,030	1	720	-	-	-	-	3	2,750
2019	1	1,548	-	-	-	-	-	-	1	1,548
2020	4	3,318	-	-	-	-	-	-	4	3,318
2021 (YTD)	4	3,255	3	3,327	-	-	-	-	7	6,582
Subtotal	17	15,823	6	5,653	-	-	-	-	23	21,475
Qualified Grants & Donations	15	109	50	2,209	-	-	-	-	65	2,317
Total	32	15,931	56	7,861	-	-	-	-	88	23,793

Source: Bank Data

The following are notable examples of qualified investments and donations.

- In 2020, FFNWB purchased a \$1.5 million bond from a CD organization that primarily provides affordable housing to LMI individuals within the AA.
- The institution donated \$2.0 million toward a community center that will provide community services to low-income populations in King County. This center is located in an elementary school where 60.9 percent of the students are eligible for free or reduced lunch.
- In 2020, the institution donated \$18,000 to purchase financial literacy software for use in schools in the AA where at least 50.0 percent of students qualify for free or reduced lunch.

Responsiveness to Credit and Community Development Needs

The institution exhibits good responsiveness to credit and CD needs. The qualified investments have CD purposes that benefited communities throughout the entire AA that address key CD needs. The majority of the qualified investments and donations by dollar amount and number benefitted affordable housing and community services, respectively.

Community Development Initiatives

The institution occasionally uses innovative and complex investments to support CD initiatives. The institution used both grants and investments in loan funds to support CD needs; however, it makes limited use of innovative or complex investment vehicles, as qualified investments consisted primarily of bonds and mortgage-backed securities.

SERVICE TEST

The Service Test is rated “Outstanding.”

Accessibility of Delivery Systems

Delivery systems are accessible to essentially all portions of the AA. The bank maintains 15 branches within the AA: 2 in Pierce County, 8 in King County, and 5 in Snohomish County. Each branch offers a 24-hour deposit-taking ATM, and the bank also has a cash-only ATM in a moderate-income tract. See the following table.

Branch and ATM Distribution by Geography Income Level								
Tract Income Level	Census Tracts		Population		Branches		ATMs	
	#	%	#	%	#	%	#	%
Low	40	5.5	202,922	5.6	1	6.7	1	6.3
Moderate	163	22.6	821,982	22.7	4	26.7	5	37.4
Middle	309	42.9	1,557,688	43.1	8	53.3	8	50.0
Upper	203	28.2	1,022,397	28.3	2	13.3	2	6.3
NA	6	0.8	9,372	0.3	-	-	-	-
Totals	721	100.0	3,614,361	100.0	15	100.0	16	100.0

Source: 2015 ACS & Bank Data ; Due to rounding, totals may not equal 100.0%

As the above table demonstrates, FFNWB’s percentage distribution of branches and ATMs in LMI tracts is slightly below peer according to 2020 branch aggregate data but is above population percentages. Additionally, mapping of branch locations demonstrates two of the middle-income branches in the AA are directly proximate to LMI areas.

FFNW also offers alternative delivery systems such as online banking, mobile banking, mobile deposit capture, person-to-person transfers, and telephone banking, which further improve the bank’s accessibility.

Changes in Branch Locations

To the extent changes have been made, FFNW’s record of opening and closing branches has improved the accessibility of its delivery systems, particularly to LMI geographies. Since the last

evaluation, the bank opened five branches: one in a low-income tract, one in a moderate-income tract, two in middle-income tracts, and one in an upper-income tract. The institution did not close any branches during the review period.

Reasonableness of Business Hours and Services

Services and business hours do not vary in a way that inconveniences certain portions of the AA, particularly LMI geographies and individuals. All bank branches maintain the same hours of operation, and all retail branches offer the same loan and deposit products and services, except for safe deposit boxes, which are only at the bank’s flagship branch, located in a moderate-income area. Night deposit drop is available for small business customers at two branch locations in King County, with one in a moderate-income tract and the other in a middle-income tract.

Community Development Services

The institution is a leader in providing CD services; see the following table. During the evaluation period, bank employees and officers provided financial expertise and technical assistance to 30 CD organizations. Performance declined from the 3,041 hours of service provided at the previous evaluation; however, the pandemic limited opportunities to provide services in 2020 and 2021, and the institution’s performance is above that of peer institutions. Additionally, the majority of service hours supported community service initiatives—demonstrating the bank’s responsiveness to a critical CD need of the AA.

Community Development Services					
	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
Activity Year	#	#	#	#	#
2018	-	394	-	-	394
2019	77	990	-	17	1,084
2020	93	247	-	32	372
2021	71	53	-	161	285
Total	241	1,684	-	210	2,135

Source: Bank Data ; Due to rounding, totals may not equal 100%

Below are examples of qualified services:

- An officer provided a collective total of 165 CD service hours as a Board member and as a member of a finance committee for an affordable housing organization and a community service organization, respectively, that both primarily serve LMI individuals in the AA.
- An officer provided 101 CD service hours as a Board member of an organization that provides community services to low- and very low-income individuals in the AA.
- Numerous employees provided 347 total CD service hours teaching financial education classes to LMI students throughout the AA.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any discriminatory or other illegal credit practices inconsistent with helping meet community credit needs.

APPENDICES

LARGE BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) through its lending activities by considering a bank's home mortgage, small business, small farm, and community development lending. If consumer lending constitutes a substantial majority of a bank's business, the FDIC will evaluate the bank's consumer lending in one or more of the following categories: motor vehicle, credit card, other secured, and other unsecured. The bank's lending performance is evaluated pursuant to the following criteria:

- 1) The number and amount of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, in the bank's assessment area;
- 2) The geographic distribution of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, based on the loan location, including:
 - i. The proportion of the bank's lending in the bank's assessment area(s);
 - ii. The dispersion of lending in the bank's assessment areas(s); and
 - iii. The number and amount of loans in low-, moderate-, middle- and upper-income geographies in the bank's assessment area(s);
- 3) The distribution, particularly in the bank's assessment area(s), of the bank's home mortgage, small business, small farm, and consumer loans, if applicable, based on borrower characteristics, including the number and amount of:
 - i. Home mortgage loans low-, moderate-, middle- and upper-income individuals
 - ii. Small business and small farm loans to businesses and farms with gross annual revenues of \$1 million or less;
 - iii. Small business and small farm loans by loan amount at origination; and
 - iv. Consumer loans, if applicable, to low-, moderate-, middle- and upper-income individuals;
- 4) The bank's community development lending, including the number and amount of community development loans, and their complexity, innovativeness, and responsiveness to community development needs; and
- 5) The bank's use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- and moderate-income individuals or geographies.

Investment Test

The Investment Test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through qualified investments that benefit its assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s). Activities considered under the Lending or Service Test may not be considered under the investment test. The bank's investment performance is evaluated pursuant to the following criteria:

- 1) The dollar amount of qualified investments;
- 2) The innovativeness or complexity of qualified investments;
- 3) The responsiveness of qualified investments to available opportunities; and
- 4) The degree to which qualified investments are not routinely provided by private investors.

Service Test

The Service Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the bank's systems for delivering retail banking services and the extent and innovativeness of its community development services.

The bank's retail banking services are evaluated pursuant to the following criteria:

- 1) The current distribution of the bank's branches among low-, moderate-, middle-, and upper-income geographies;
- 2) In the context of its current distribution of the bank's branches, the bank's record of opening and closing branches, particularly branches located in low- or moderate-income geographies or primarily serving low- or moderate-income individuals;
- 3) The availability and effectiveness of alternative systems for delivering retail banking services (*e.g.*, RSFs, RSFs not owned or operated by or exclusively for the bank, banking by telephone or computer, loan production offices, and bank-at-work or bank-by-mail programs) in low- and moderate-income geographies and to low- and moderate-income individuals; and
- 4) The range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

The bank's community development services are evaluated pursuant to the following criteria:

- 1) The extent to which the bank provides community development services; and
- 2) The innovativeness and responsiveness of community development services.

SCOPE OF EVALUATION

First Financial Northwest Bank	
Scope of Examination: Full scope reviews were performed on the following assessment area: Seattle-Tacoma CSA	
Time Period Reviewed:	05/21/2018 to 08/02/2021
Products Reviewed: Home Mortgages: 01/01/2018 – 12/31/2020 Small Business: 01/01/2018 – 12/31/2020	

List of Assessment Areas and Type of Evaluation			
Rated Area/ Assessment Area	Type of Evaluation	Branches Visited	Other Information
Seattle-Tacoma CSA	Full-scope	None	N/A

GLOSSARY

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.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Bank CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that:

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose bank:
 - (i) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
 - (ii) Benefits the bank's assessment area(s) or a broader statewide or regional area including the bank's assessment area(s).

Community Development Service: A service that:

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the bank's retail banking services under § 345.24(d).

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.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

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. Other family 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).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and 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 applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area.

Performance under applicable tests is often analyzed using only quantitative factors (e.g., geographic distribution, borrower profile, 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.

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

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.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Micropolitan Statistical Area: CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

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 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 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as non-MSA): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

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 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.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Investment Company (SBIC): SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: 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, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area’s population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

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

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.