



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 01, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Yakima National Bank
Charter Number 23224

601 W. Walnut Avenue
Yakima, WA 98902

Office of the Comptroller of the Currency

San Francisco Field Office
One Front Street, Suite 1000
San Francisco, CA. 94111

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.

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

Yakima National Bank (YNB) satisfactorily meets the credit needs of its assessment area (AA), including low- and moderate-income areas, consistent with its resources and capabilities. The following supports this rating:

- YNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the credit needs of the community.
- The bank's lending in the AA exceeds the standard for satisfactory performance.
- The bank's distribution of loans to businesses of different sizes reflects reasonable penetration, given the demographics of its AA.
- The bank's geographic distribution of loans reflects reasonable dispersion throughout the AA.
- There have been no written complaints regarding the bank's performance in meeting its community's credit needs.

SCOPE OF EXAMINATION

We evaluated the bank's performance based on loans originated from March 4, 2004 (last examination date), through December 31, 2009. We focused our evaluation on the bank's primary product lines, which include commercial and commercial real estate loans. For the purposes of this examination, we combined both under one category (business loans). Home mortgage and agricultural loan products were not selected to be reviewed since the bank is not a major mortgage or agricultural lender in this market. We randomly selected 20 business loans for our sample to review the bank's lending in its AA.

DESCRIPTION OF INSTITUTION

YNB was chartered on August 4, 1997. As of December 31, 2009, YNB had total assets of \$107 million, with \$83 million in loans. The bank's total loans represent 78% of total assets. YNB is headquartered in Yakima, WA, which is located in Yakima County. YNB operates two full service branches in Yakima County, and a loan processing center in Ellensburg, WA, in Kittitas County. YNB is owned under a one-bank holding company, YNB Financial Services Corporation.

YNB focused its lending activity on commercial and commercial real estate loans, although residential real estate and agricultural loans are also available.

There are no legal or financial circumstances impeding the bank's ability to help meet

the credit needs of the community. The bank's CRA performance was previously evaluated on March 4, 2004, and found to be satisfactory.

Table 1

YAKIMA NATIONAL BANK LOAN PORTFOLIO COMPOSITION		
Loan Type	\$ Volume (000)	% of Portfolio
Commercial (including commercial RE)	69,804	84
Residential Real Estate	7,849	9
Agriculture (Including Farm Land Loans)	3,513	4
Consumer (Includes Other)	2,171	3
Total Loans	83,337	100

Source: Call Report as of 12/31/2009

Please refer to the bank's CRA public file for more information about the institution.

DESCRIPTION OF ASSESSMENT AREA(S)

YNB has designated Yakima County and Kittitas County as their AA. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geography.

In conjunction with this CRA examination, we conducted a community contact interview. 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. The contact was a representative of a local business group. The contact felt local community banks were doing a good job of investing in the community; however, large banks were not.

The Yakima Assessment Area

The AA consists of 42 census tracts in Yakima and Kittitas Counties, which were determined by the 2000 U.S. Census. These counties are located in the south central part of Washington State. The total population of the two counties is 255,943.

According to Moody's Economy.com for 2009, Yakima's economy is showing signs of moderating, with an unemployment rate of 8.7%. Housing prices have continued to fall and are not expected to resume momentum for at least another year. Yakima's job growth is not expected to begin until 2011. The major employers in the area are Yakima Valley Memorial Hospital, Wal-Mart Stores, Inc., and Yakima Regional Medical and Heart Center.

The following table highlights the demographic composition of the YNB AA.

Table 2

YAKIMA NATIONAL BANK AA COMPOSITION INCOME CHARACTERISTICS OF CENSUS TRACTS, BUSINESSES AND FAMILIES						
Income of Census Tract	# and % of Census Tracts		# and % of Businesses		# and % of Families	
Low Income	2	4.76	1,357	7.60	1,451	2.31
Moderate Income	11	26.19	3,509	19.65	15,440	24.60
Middle Income	19	45.24	8,167	45.73	26,255	41.84
Upper Income	10	23.81	4,825	27.02	19,606	31.25
Total:	42	100.00	17,858	100.00	62,752	100.00

Source: 2008 Dun & Bradstreet

There are 17,858 businesses that operate within this AA. Of those, approximately 68% have reported annual revenues of \$1 million or less. Approximately 70% employ fewer than ten people. The weighted average of HUD updated median family income is \$48,876, and the weighted average of median housing is \$110,471.

Competition in the area is strong with 16 banks operating within the assessment area. YNB ranks 10th in deposit market share with 3.36%. The four largest banks hold 60% of the deposit market share. Other area banks include Yakima Federal Savings and Loan, US Bank, Banner Bank, and Bank of America.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

YNB's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and the credit needs of the community. Average LTD ratios were computed over the last 24 quarters (March 2004 to December 2009). YNB's average LTD ratio is 84.55%. We found only one other institution similar in size and location to YNB, and found an average quarterly LTD ratio of 83.58%.

Lending in Assessment Area

The bank's lending in the AA exceeds the standard for satisfactory performance.

Table 3

YAKIMA NATIONAL BANK LENDING IN ASSESSMENT AREA								
Loan Type	Number of Loans				Dollars of Loans			
	Inside		Outside		Inside		Outside	
	#	%	#	%	\$	%	\$	%
Business Loans	20	100	0	0	2,207,918	100	0	0
Totals	20	100	0	0	2,207,918	100	0	0

Source: Sample of 20 business loans originated from March 4, 2004 to December 31, 2009

A majority of the bank's business loans are made within the bank's designated assessment area. Of the 20 loans sampled, the bank originated all 20 loans, or 100%, of the number and dollar volume of loans, to borrowers within its AA.

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

The bank's distribution of loans to businesses of different sizes reflects reasonable penetration, given the demographics of the AA.

Table 4

YAKIMA NATIONAL BANK ASSESSMENT AREA INCOME DISTRIBUTION OF LOANS TO BUSINESSES				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	66.74%	4.63%	28.63%	100%
% of Bank Loans in AA by #	40.00%	45.00%	15.00%	100%
% of Bank Loans in AA by \$	46.76%	51.25%	1.99%	100%

Demographic Data Source: 2008 Business Geodemographic Data. Figures add up to over 100% due to rounding.

The percentage of businesses with revenues less than or equal to \$1,000,000 within the Yakima AA is 67%. Based on our sample, the resulting percentage of loans to these businesses by number and dollar volume was 40% and 49%, respectively. While these percentages are somewhat below the area demographics, the fact that 63% of the small businesses had revenues of less than \$500,000 was taken into consideration. We also reviewed the bank's loan trial balance and found that over 98% of their business loans made were for under \$1,000,000, indicating the bank's efforts to make small loans to businesses.

Geographic Distribution of Loans

Based on our sample, the bank's geographic distribution of loans reflects reasonable dispersion throughout the AA. The bank penetrated all census tracts within its AA. We found no conspicuous gaps in the bank's distribution of loans.

Table 5

YAKIMA ASSESSMENT AREA GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	8	0	21	30	44	30	27	40

Demographic Data Source: 2008 Business Geodemographic Data

As shown in the table above, the bank's distribution of business loans originated in low-income geographies, by the percentage of number of loans, was zero as compared to area demographics of eight. However, based on internal CRA analysis reports, we found that 9% of total loans were in low-income geographies, meeting demographics. The bank's distribution of business loans originated in the moderate-income geographies, by percentage of number of loans, was 30%, exceeding area demographics of 21%.

Responses to Complaints

No written complaints concerning YNB's CRA performance have been received since the bank's previous CRA Examination, dated March 4, 2004.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.