

# WASHINGTON COMMUNITY REINVESTMENT ASSOCIATION



Annual Report  
2004

## OUR PRIMARY MISSION IS:

- To be a catalyst for the creation and preservation of affordable housing in Washington State.
- To expand resources for real estate based community development in Washington State.
- To be a voice for its member financial institutions on affordable housing and community development issues.
- To provide a dynamic risk sharing vehicle to maximize private investment in community development throughout Washington State.
- To operate within a strategic and financially prudent structure.
- To work with public sector entities to promote public/private partnerships that achieve maximum leverage of public dollars.
- To provide value to its members and the communities they serve that will generate and sustain support for WCRA's long term operation and success.



Logan Park Apartments Featured Project

## WCRA CHAIR & PRESIDENT'S LETTER

WCRA successfully navigated a challenging and changing economic environment in Fiscal 2004. Focusing on its community development mission, WCRA originated new loan applications totaling \$7.4 million and funded \$12.4 million, for projects located throughout the state of Washington. Since its inception in 1992, WCRA has now approved over \$184 million in loans, creating 7,044 units of affordable housing and developing over 49,654 square feet of real estate supporting economic development projects.

After careful review and consideration, the WCRA Board of Directors chose to increase the Association's loan loss reserves to nearly \$1,000,000. Although this decision resulted in a net loss in revenue in 2004, it places the WCRA in a stronger position to manage the demands of a maturing, predominately rural, loan portfolio with resources to address identified economic challenges.

WCRA continues to build on the partnerships that expand the Association's ability to reach communities in all parts of the State. One such partnership is with the Washington State Housing Finance Commission (Commission). Together WCRA and the Commission developed the Capital Plus Program which brings low cost financing to non-profits for capital facilities and equipment. In Fiscal 2004, the first full year of this program, over \$1,000,000 was funded, assisting non-profits in both Eastern and Western Washington.

We are most thankful for our community partners and the continuing support and dedication of our 38 member institutions. Working together we are improving the living conditions of lower income individuals and families and supporting the growth and vitality of communities across Washington. The partnerships are strong, the commitment is there and the resources are ready.



A handwritten signature in black ink that reads "Larry Burke".

Larry Burke, Chair



A handwritten signature in black ink that reads "Judy Reed".

Judy Reed, President

## WCRA Board of Directors 2004

Chair	Larry Burke	Key Bank
Vice Chair	Karen McCormick	First Federal Savings and Loan of Port Angeles
Secretary	Greg Leland	Sterling Savings Bank
President	Judy Reed	WCRA
	Reza Aghamirzadeh	Washington Mutual Bank
	James A. Boora	Anchor Bank
	Stephen Buxbaum	WA State DCTED
	Loren Dixon	Banner Bank
	Michael Dotson	Bank of America
	Paul Edwards	Washington State Housing Finance Commission
	Tom Lattimore	Local Initiative Support Corporation
	M.A. Leonard	The National Equity Fund, Inc.
	Judith Olsen	Wells Fargo Bank
	John Swanson	U.S. Bank

## WCRA Loan Committee 2004

Chair	Lauren Jassny	The Commerce Bank of Washington, N.A.
	Gregg DeRitis	Key Bank
	Neil Hodge	U.S. Bank
	Renee Logan	Wells Fargo Bank
	Robert Morris	Washington Mutual Bank
	Chris Moxon	Bank of America
	John Schukar	Northern Trust Bank
	John Voth	Horizon Bank
Alternate	Don Henry	U.S. Bank
Alternate	Dinah Thoreson	Washington Mutual Bank

## WCRA PARTICIPATING MEMBERS 2004

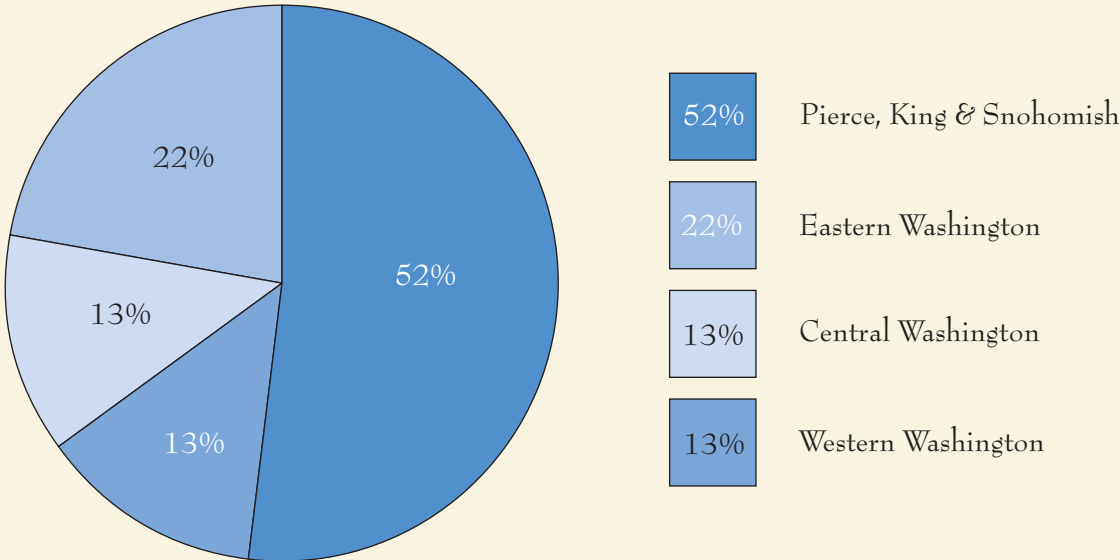
AMERICAN MARINE BANK	FIRST FEDERAL SAVINGS & LOAN	STERLING SAVINGS BANK
ANCHOR BANK	ASSOCIATION OF PORT ANGELES	TIMBERLAND BANK
BANK OF AMERICA	FIRST MUTUAL BANK	UNION BANK OF CALIFORNIA
BANK OF THE WEST	FRONTIER BANK	U.S. BANK
BANNER BANK	HERITAGE BANK	WASHINGTON FEDERAL SAVINGS
CASCADE BANK	HOMESTREET BANK	WASHINGTON FIRST
CASHMERE VALLEY BANK	HORIZON BANK	INTERNATIONAL BANK
CHARTER BANK	KEY BANK	WASHINGTON MUTUAL BANK
CITY BANK	NORTHERN TRUST BANK	WASHINGTON TRUST BANK
COLUMBIA BANK	OLYMPIA FEDERAL SAVINGS & LOAN	WELLS FARGO BANK
COLUMBIA RIVER BANK	ASSOCIATION	WEST COAST BANK
THE COMMERCE BANK OF	REDMOND NATIONAL BANK	WHIDBEY ISLAND BANK
WASHINGTON, N.A.	RIVERVIEW COMMUNITY BANK	YAKIMA FEDERAL SAVINGS & LOAN
COWLITZ BANK	SKAGIT STATE BANK	ASSOCIATION
EVERGREEN BANK		

# Loan Activity in Fiscal Year 2004:

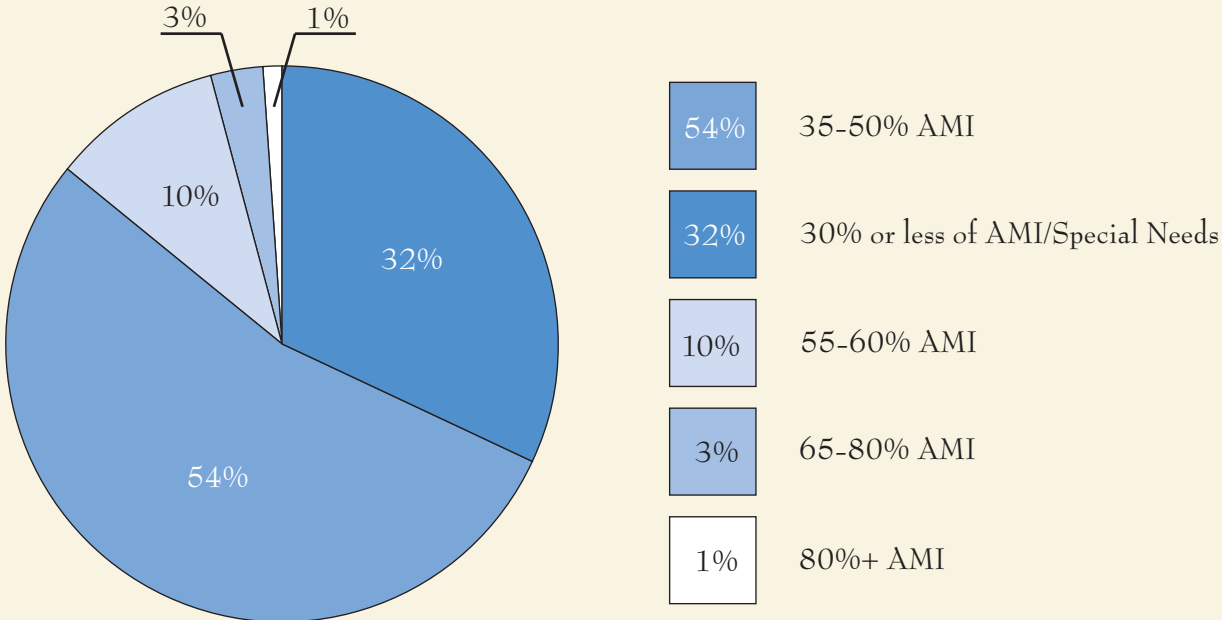
**Projects Funded**  
14 Projects (485 units)  
\$12,463,100

**New Projects Approved**  
11 Projects (327 units)  
\$7,335,060

## Loans By Region:



## Loans by Income Served:



## Logan Park Apartments Sedro Woolley Washington

The City of Sedro Woolley, located in the fertile Skagit Valley, possesses a strong agricultural history. Seasonal crops, such as apples, bulbs and berries, have long fueled the local economy and year after year agricultural workers have returned to the area to participate in the harvest. Recently, new crops have been introduced to the Valley resulting in a rise in the number of jobs available. Many positions that were formerly seasonal are now tied to year-round work. These changes have allowed the migrant farmworkers to settle in and become permanent residents.

But settling in is not necessarily as simple as it sounds. Sedro Woolley is a small community. Farmworkers and their families who must locate housing are faced with obstacles such as rents higher than they can afford or lack of vacancies. As a result, many of them experience very poor housing conditions, including substandard structures, overcrowding, and homelessness.

Business owners William and Kathleen Massey, in conjunction with Louis C. Logan, recognized the need in the community for safe, affordable farmworker housing. In 2001, they formed Brickyard Creek LLC and began plans to build a multifamily, residential apartment complex geared specifically towards agricultural workers and their families. With a long-term loan from Washington Community Reinvestment Association and tax credit investment from Key Investment Fund, Logan Park Apartments came to fruition.

Logan Park is a 47 unit complex, consisting of 13 apartment buildings, that provide housing for persons limited to either 40% or 50% of the Skagit County median income. In addition, these units are set aside for and specifically marketed to agricultural workers and their families. The facilities are modern, bright, and homey. There is a bustling playground located on the grounds for the children and the complex is just a short distance from the downtown area with its' amenities and services.



*“Logan Park is a lovely and peaceful place to live,” says on-site manager Martha Castillo. “Our tenants are wonderful, there’s an excellent sense of community and I’ve enjoyed every day I have worked here.”*

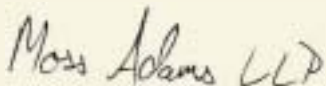
## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Washington Community Reinvestment Association

We have audited the accompanying statement of financial condition of Washington Community Reinvestment Association (the Association) as of September 30, 2004, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Association as of September 30, 2003 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated November 25, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Washington Community Reinvestment Association as of September 30, 2004, and the results of its activities and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



Moss Adams  
Everett, Washington  
October 26, 2004

WASHINGTON COMMUNITY REINVESTMENT ASSOCIATION  
STATEMENT OF FINANCIAL CONDITION

ASSETS	SEPTEMBER 30,	
	2004	2003
CASH AND CASH EQUIVALENTS	\$851,895	\$794,569
INVESTMENTS	1,229,923	1,344,666
INTEREST RECEIVABLE	378,989	315,380
ACCOUNTS RECEIVABLE AND PREPAID EXPENSES	33,181	16,402
LOANS HELD FOR SALE, net	63,796,096	62,056,177
COMMITMENTS ON NOTES PAYABLE		220,000
LOANS HELD FOR INVESTMENT, net	1,352,369	366,255
EQUIPMENT AND VEHICLES, net	34,050	25,738
Total assets	<u>\$67,676,503</u>	<u>\$65,139,187</u>
<b>LIABILITIES AND UNRESTRICTED NET ASSETS</b>		
LIABILITIES		
Accounts payable and accrued liabilities	\$103,611	\$193,360
Interest payable	346,600	283,214
Deferred rent payable	13,454	20,993
Capital lease liability	3,156	5,763
Commitments on loans held for sale	-	220,000
Loans payable - WSHFC	1,231,565	228,000
Notes payable - member banks	65,257,415	63,308,291
Total liabilities	<u>\$66,955,801</u>	<u>\$64,259,621</u>
UNRESTRICTED NET ASSETS	<u>720,702</u>	<u>879,566</u>
Total	<u><u>\$67,676,503</u></u>	<u><u>\$65,139,187</u></u>

WASHINGTON COMMUNITY REINVESTMENT ASSOCIATION  
STATEMENT OF ACTIVITIES

	SEPTEMBER 30,	
	2004	2003
REVENUES		
Interest income	\$4,611,049	\$3,876,432
Gain on sale of loans	52,120	58,338
Loan fees	178,627	92,032
CTED construction loan review revenue	66,185	39,404
Contributions from member institutions	2,500	5,000
Other contributions	-	26,645
Total revenues	<u>4,910,481</u>	<u>4,097,851</u>
EXPENSES		
Interest expense	3,880,636	3,268,225
Salaries and related expenses	372,723	413,720
Provision for loan losses	394,000	47,000
Prepayment fees on notes payable	40,383	8,769
Professional fees	102,916	76,299
Office expenses	88,813	84,471
Other expenses	169,374	132,801
Contributions and grants	20,500	22,850
Total expenses	<u>5,069,345</u>	<u>4,054,135</u>
CHANGE IN UNRESTRICTED NET ASSETS	\$ (158,864)	\$ 43,716
Unrestricted net assets, September 30, 2003	<u>879,566</u>	<u>835,850</u>
Unrestricted net assets, September 30, 2004	<u><u>\$720,702</u></u>	<u><u>\$879,566</u></u>

WASHINGTON COMMUNITY REINVESTMENT ASSOCIATION  
STATEMENT OF CASH FLOWS

	SEPTEMBER 30,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from		
Notes payable - member banks	\$11,433,100	\$22,307,300
Loans payable - WSHFC	1,030,000	228,000
Loan fees	228,539	393,073
Interest	4,547,440	3,870,911
Loan principal collected	5,213,012	3,012,487
CTED construction loan review revenue	50,591	36,142
Contributions from member institutions	2,500	5,000
Other contributions	-	19,300
Proceeds from sale of loans held for sale	4,244,214	6,065,830
	<u>26,749,396</u>	<u>35,938,043</u>
Cash paid to		
Borrowers for loan originations of loans held for sale	(11,433,100)	(22,307,300)
Borrowers for loan originations - WSHFC program	(1,030,000)	(228,000)
Employees	(452,515)	(412,806)
Vendors	(500,192)	(339,073)
Member banks for prepayment penalties	(40,383)	(8,769)
Member banks and WSHFC for interest	(3,817,249)	(3,272,453)
Member banks and WSHFC for note and loan repayments	(9,510,411)	(9,111,078)
	<u>(26,783,850)</u>	<u>(35,679,479)</u>
Net cash from operating activities	<u>(34,454)</u>	<u>258,564</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan principal collected - Reserve loans	2,298	50,165
Equipment purchased	(25,870)	(9,947)
Proceeds from sale of equipment	3,216	
Purchase of investments	(663,681)	(900,043)
Maturity of investments	778,424	756,760
	<u>94,387</u>	<u>(103,065)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease	(2,607)	(2,343)
NET INCREASE IN CASH AND CASH EQUIVALENTS	57,326	153,156
CASH AND CASH EQUIVALENTS		
Beginning of year	794,569	641,413
End of year	<u>\$851,895</u>	<u>\$794,569</u>

See accompanying notes.

WASHINGTON COMMUNITY REINVESTMENT ASSOCIATION  
STATEMENT OF CASH FLOWS (CONTINUED)

	SEPTEMBER 30,	
	2004	2003
RECONCILIATION OF CHANGE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in unrestricted net assets	(158,864)	43,716
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities		
Depreciation	18,087	13,025
Donated software		(7,345)
Gain on sale of vehicle	(3,216)	-
Loss on disposal of obsolete assets	2,581	-
Provision for loan losses	394,000	47,000
Changes in operating assets and liabilities		
Interest receivable	(63,609)	(5,521)
Accounts receivable and prepaid expenses	(16,779)	(553)
Loans held for sale, net	(2,127,469)	(13,078,480)
WSHFC Loans receivable, net	(994,862)	(228,000)
Accounts payable and accrued liabilities	(92,859)	56,895
Interest payable	63,386	(4,228)
Deferred rent payable	(7,539)	(2,167)
Notes payable - member banks	1,949,124	13,196,222
Loans payable - WSHFC	1,003,565	228,000
	<u>\$ (34,454)</u>	<u>\$ 258,564</u>
NET CASH FROM OPERATING ACTIVITIES		

WASHINGTON COMMUNITY REINVESTMENT ASSOCIATION NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

The Washington Community Reinvestment Association (the "Association") began operations on February 10, 1992, as a private not-for-profit organization established to provide permanent financing and technical assistance to facilitate the development of affordable housing in the state of Washington and to otherwise support community development and redevelopment needs. Funding is provided by member banks under the Credit and Security Agreement (the "Agreement") at predetermined percentages, based upon each member's proportionate customer deposits to the member banks' deposits in total.

The Association has a revolving loan and investment fund and a reserve for grants and contributions to nonprofit entities. Loans originated from the revolving loan fund earn interest equal to the applicable U.S. government securities rate consistent with the term of the underlying loan and are secured by real estate. The amount of the reserve for contributions and grants is determined based on 20% of the Association's annual cash provided by operating activities. Contributions and grants will be made for approved projects, and the Association is not obligated to commit the entire amount of the reserve on an annual basis.

The Association has a program to assist potential borrowers in obtaining permanent financing for multifamily projects through tax-exempt bonds purchased by the Association's members. The Association provides these borrowers access to its members and assists in document preparation but does not underwrite the bonds. Direct investments from the Association's members are made to the borrower, with the Association collecting a fee for its assistance, as well as servicing the bonds. As of September 30, 2004, \$6,760,686 in bonds have been originated, and there are no outstanding commitments.

Effective May 28, 2002, the Association entered into a contract with the State of Washington Department of Community, Trade and Economic Development's Office of Community Development ("CTED") for the purpose of providing construction loan review and evaluation for the Housing Trust Fund construction lending program that provides loans to low income and special needs housing programs and providers to construct and rehabilitate affordable housing in the state. For the years ended September 30, 2004 and 2003, the Association recorded \$66,185 and \$39,404, respectively, of fee revenue related to this activity.

Effective February 7, 2003, the Association entered into an agreement (the "WSHFC Agreement") for a revolving line of credit from the Washington State Housing Finance Commission (the "Commission" or "WSHFC") for the purpose of making loans to serve nonprofit organizations whose needs for small loan amounts make conventional financing or financing through bonds too costly and inefficient. In the event of default of loans made by the Association with funds borrowed under this revolving line of credit, the Commission, at its sole option, retains the right of assignment, without recourse or warranty, of the loans made in full satisfaction of the amounts borrowed under the line of credit. If such assignment option is not exercised, the Association is not required to repay funds borrowed under this revolving line of credit. WSHFC loans are included in loans held for investment on the statement of financial condition.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Association have been prepared on the accrual basis. Under accounting principles generally accepted in the United States of America, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. All net assets of the Association are classified as unrestricted. The significant accounting policies followed are described below:

**Cash and Cash Equivalents** - All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

**Investments** - Investments include certificates of deposits and money market accounts with short-term and long-term maturities and are presented at fair value.

**Equipment** - Purchased equipment is recorded at cost, and donated equipment is recorded at estimated fair value on the date of donation. All equipment is depreciated over estimated useful lives of three to five years on a straight-line basis. Expenditures for maintenance and repairs are charged to expense as incurred.

**Loans held-for-sale** - Loans originated and held-for-sale are carried at the lower of cost or market value on an aggregate basis. Net unrealized losses, if any, are recognized through a valuation allowance by a charge to income. Nonrefundable fees and direct loan origination costs related to loans held-for-sale are deferred and recognized when the loans are sold.

**Loans Held for Investment** - Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at the principal amount outstanding, net of unamortized nonrefundable loan fees and related direct loan origination costs. Deferred net fees and costs are recognized in interest income over the loan term using a method that generally produces a level yield on the unpaid loan balance. Interest is accrued primarily on a simple interest basis on the outstanding principal balance of the loan. Loans held for investment consist of loans originated under the WSHFC agreement and loans originated with the Association's cash reserves.

**Nonaccrual and Impaired Loans** - Nonaccrual loans are those for which management has discontinued accrual of interest because there exists significant uncertainty as to the full and timely collection of either principal or interest or because such loans have become contractually past due 90 days with respect to principal or interest.

When a loan is placed on non-accrual, all previously accrued but uncollected interest is reversed against current period interest income. All subsequent payments received are first applied to unpaid interest and then to unpaid principal. Interest income is accrued at such time as the loan is brought fully current as to both principal and interest, and, in management's judgment, such loans are considered to be fully collectible.

Loans are considered impaired when, based on current information, management determines it is probable that the Association will be unable to collect all amounts due according to the terms of the loan agreement, including scheduled interest payments. Impaired loans are carried at the lower of the recorded investment in the loan, the estimated present value of expected future cash flows discounted at the loan's effective date, or the fair value of the collateral if the loan is collateral dependent.

**Allowance for loan losses** - The Association maintains an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance is based on ongoing, quarterly assessments of the probable estimated losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses, which is charged against current period operating results, and decreased by the amount of charge-offs, net of recoveries.

The Association's methodology for assessing the appropriateness of the allowance consists of several key elements, including the formula allowance and specific allowance.

The formula allowance is calculated by applying a loss percentage factor to the portfolio loans based on the regulatory and internal credit grading and classification system; and current economic, business and regulatory conditions that could affect the collectibility of the portfolio. These factors may be adjusted for significant events, in management's judgment, as of the evaluation date.

Specific allowances are established when determined necessary for loans using the valuation approaches described above as well as known current business conditions that may affect the Association. Impairment losses are recognized by adjusting an allocation of the existing allowance for loan losses.

**Commitments on Loans Held for Sale and Notes Payable** - The Association enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (loan commitments). Loan commitments on mortgage loans that are intended to be sold are considered to be derivatives. The Association's cost of borrowing to fund the originated loans is based upon the interest rate of such loans. The commitments to borrow from member banks are also derivatives. These derivatives are recorded at fair value, with the change in fair value recorded in earnings. These commitments do not expose the Association to interest rate risk as the associated risk is borne by the member banks.

**Escrow** - Customer funds held for operating and completion reserves are not recorded on the books of the Association as such accounts are held by another institution in the borrowers' names. At September 30, 2004, the amount of funds held for customers in escrow was \$3,147,345.



*Contributions Received* - Contributions received from institutions for membership in the Association and all other contributions are recorded in the statement of activities. Any restricted contributions received and spent in the same year are treated as unrestricted contributions.

*Functional Allocation of Expenses* - In order to provide information in regard to service efforts, the costs of providing the Association's programs have been presented in the statement of activities. The Association effectively operates as a single program and, therefore, no attempt has been made to segregate general and administrative expenses. In addition, the Association's fund raising activities are minimal.

*Use of Estimates* - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. Changes in these estimates and assumptions are considered reasonably possible and may have a material impact on the financial statements. The Association has used significant estimates in determining allowances for loan losses, the fair value and the determination of lower of cost or fair value of loans held for sale and the fair value of loan commitments.

*Tax Status* - On June 17, 1996, the Association received an Internal Revenue Service determination letter reaffirming the Association's status as a publicly supported organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

*Reclassifications*- Certain prior year amounts have been reclassified to conform to the current year presentation.

### NOTE 3 - EQUIPMENT AND VEHICLES

A summary of equipment and vehicles at September 30 is as follows:

	2004	2003
Equipment	\$95,971	\$82,054
Vehicles	-	23,108
Less accumulated depreciation	(61,921)	(79,424)
	<u>\$34,050</u>	<u>\$25,738</u>

Depreciation expense for the years ended September 30, 2004 and 2003, was \$18,087 and \$13,025, respectively.

### NOTE 4 - LOANS RECEIVABLE

Loans held for sale and held for investment consist of the following at September 30, 2004:

	Held for Sale	Held for Investment	Total
Real estate loans	\$65,774,205	\$1,362,002	\$67,136,207
Less:			
Allowance for loan losses	(925,190)	(6,810)	(932,000)
Deferred loan fees	(1,052,919)	(2,823)	(1,055,742)
	<u>\$63,796,096</u>	<u>\$1,352,369</u>	<u>\$65,148,465</u>

Loans held for sale and held for investment consist of the following at September 30, 2003:

	Held for Sale	Held for Investment	Total
Real estate loans	\$63,759,271	\$370,960	\$64,130,231
Less:			
Allowance for loan losses	(593,640)	(360)	(594,000)
Deferred loan fees	(1,109,454)	(4,345)	(1,113,799)
	<u>\$62,056,177</u>	<u>\$366,255</u>	<u>\$62,422,432</u>



## NOTE 4 - LOANS RECEIVABLE (CONTINUED)

Changes in the allowance year ended September 30, 2004, were as follows:

	Held for Sale	Held for Investment	Total
Allowance for loan losses - beginning of year	\$593,640	\$360	\$594,000
Provision for loan losses	387,550	6,450	394,000
Charge offs	(56,000)		(56,000)
Allowance for loan losses - end of year	<u>\$925,190</u>	<u>\$6,810</u>	<u>932,000</u>

Changes in the allowance for loan losses for the year ended September 30, 2003, were as follows:

	Held for Sale	Held for Investment	Total
Allowance for loan losses - beginning of year	\$546,000	\$1,000	\$547,000
Provision for loan losses	47,640	(640)	47,000
Allowance for loan losses - end of year	<u>\$593,640</u>	<u>\$360</u>	<u>\$594,000</u>

Loans originated by the Association are held for sale in the secondary market and to other prospective investors, such as the member banks. During the years ended September 30, 2004 and 2003 the Association has sold loans to member banks and others as described in Note 9. Loans originated by the Association are secured by a first deed of trust on the subject property of each loan. Loans are collateralized by multifamily housing located within the State of Washington.

At September 30, 2004 and 2003, the Association had one impaired loan, as defined by SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, in the amount of approximately \$1,331,000 and \$1,331,000, respectively. Reserves of \$437,000 as of September 30, 2004 and \$122,700 as of September 30, 2003 have been allocated to this loan. The total average balance of impaired loans for the years ended September 30, 2004 and 2003, was approximately \$1,331,000 and \$1,331,000, respectively. Interest income, paid in cash, recognized on the impaired loans during the years ended September 30, 2004 and 2003, was approximately \$20,000 and \$88,200, respectively.

## NOTE 5 - NOTES PAYABLE - MEMBER BANKS

Funding for loans originated by the Association has been provided by member banks under a revolving line of credit as specified in the Agreement. The maximum limit on the line of credit is \$74,900,000, of which \$53,215,011 and \$49,228,254 was outstanding at September 30, 2004 and 2003, respectively, and \$15,929,700 was approved to be funded for loan commitments (Note 8) as of September 30, 2004. As stated in the Agreement, the terms of the Association's borrowings from member banks are substantially the same as the terms of the loans the Association will originate. The member banks receive an assignment of collateral of the specific loans held for sale equal to their respective equity percentage interest in each specific note payable. A nominal interest rate spread is retained by the Association to cover operating expenses.

The rate of interest on notes payable to member banks on amounts borrowed prior to September 15, 1997, was determined based on the applicable rate, at the time the loan was funded, of U.S. government securities with a term consistent with the term of the underlying note payable plus .75%. The rate of interest on amounts borrowed after September 15, 1997, is determined based on the applicable rate, at the time the loan is funded, on U.S. government securities with a term consistent with the term of the underlying note payable plus 1%. The rates of interest on all notes payable are fixed over the term of the notes.

Effective September 15, 1997, the Association entered into a nonrevolving line of credit from certain member banks to provide additional funds for new loans and loan commitments in order to maintain lending capacity. Effective February 15, 2001, this agreement was amended. Twenty-six member banks participating in the nonrevolving line of credit voted to continue this line on a revolving basis. One member bank opted out of the revolving portion. This bank's prior commitments will be held on a nonrevolving basis. The maximum limit on the line of credit is \$23,262,000, of which \$300,000 is nonrevolving. As of September 30, 2004 and 2003, the outstanding amounts were \$9,821,593



## NOTE 5 - NOTES PAYABLE - MEMBER BANKS (CONTINUED)

and \$11,831,225, respectively, and \$1,455,560 was approved to be funded for loan commitments (Note 8) on the line of credit as of September 30, 2004. Similar to the revolving line of credit above, the member banks receive an assignment of collateral of the specific loans held for sale equal to their respective equity percentage interest in each specific note payable. A nominal interest rate spread is retained by the Association to cover operating expenses. The interest rate on notes payable to member banks for the revolving line of credit is 1% over the applicable rate on U.S. government securities having a term consistent with the term of the underlying note payable.

Effective May 15, 2001, the Association entered into a revolving line of credit from certain member banks for the purpose of economic development lending. The maximum limit on the line of credit is \$7,500,000. As of September 30, 2004 and 2003, the outstanding amounts were \$2,220,811 and \$2,248,812, respectively, and there were no outstanding loan commitments (Note 8) as of September 30, 2004. Similar to the revolving lines of credit above, the member banks receive an assignment of collateral of the specific loans held for sale equal to their respective equity percentage interest in each specific note payable. A nominal interest rate spread is retained by the Association to cover operating expenses. The interest rate on notes payable to member banks for the revolving line of credit is 1.50% over the applicable rate on U.S. government securities having a term consistent with the term of the underlying note payable.

The terms of the notes payable to member banks prior to December 31, 1996, required a prepayment penalty of 1% of the outstanding balance if prepaid prior to maturity.

Future minimum payments of notes payable-member bank are as follows:

YEAR ENDING SEPTEMBER 30,	AMOUNT
2005	\$986,530
2006	1,055,416
2007	1,123,873
2008	1,196,826
2009	1,274,572
Thereafter	59,620,198
	<u>\$65,257,415</u>

Notes payable - member banks, at September 30, 2004, bear interest at rates of 5.0% to 8.3%. The notes are payable in monthly installments, including principal and interest.

Because notes payable are directly designated to specific loans held for sale, such activity is considered an operating activity in the statement of cash flows.

## NOTE 6 - LOANS PAYABLE - WASHINGTON STATE HOUSING FINANCE COMMISSION

Funding for loans originated by the Association has been provided by the Commission under a revolving line of credit as specified in the WSHFC Agreement. The maximum limit on the line of credit is \$3,000,000. As of September 30, 2004 and 2003, the outstanding amounts were \$1,231,565 and \$228,000, respectively, and \$665,000 was approved to be funded for loan commitments (Note 8) as of September 30, 2004. A nominal interest rate spread is retained

by the Association to cover operating expenses. The interest rate on the loans to the Commission for the revolving line of credit is 2%, consistent with the terms of the WSHFC Agreement.

Future minimum payments of loans payable-WSHFC are as follows:

YEAR ENDING SEPTEMBER 30,	AMOUNT
2005	\$66,950
2006	68,484
2007	69,867
2008	71,277
2009	59,526
Thereafter	895,461
	<u>\$1,231,565</u>

## NOTE 7 - CONTRIBUTIONS FROM MEMBER INSTITUTIONS

Contributions from member institutions were made by the Association's member banks to cover initial operating expenses. Initial contributions from member institutions were determined to cover the first two years of operating expenses. The first installment was paid prior to September 30, 1992, and the second installment of approximately \$57,000 was paid during 1993. In addition, members who join the Association subsequent to the original formation are assessed a one-time contribution. During the years ended September 30, 2004, and 2003, new member assessments of \$2,500 and \$5,000, respectively, were collected. Members also contributed \$19,300 during the year ended September 30, 2003 to assist with capital costs related to technology upgrades.

Members are admitted for a two year term and are automatically renewed for subsequent two year terms unless a member resigns. Changes in membership status (new members and resignations) are accepted annually by the Association members in January. The Board of Directors may require additional contributions of members in future years. If members do not make any required contribution within 60 days of when it becomes payable, the Board of Directors may terminate their memberships.

## NOTE 8 - COMMITMENTS

Loan commitments at September 30, 2004 were \$18,050,260, of which \$13,096,060 was for 30-year fixed rate commitments and \$4,954,200 was for 10 to 15-year rate commitments. Commitments to extend credit generally have fixed expiration dates. Since a portion of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Prior to extending commitments, the Association evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the borrower. Collateral held includes residential multifamily properties.

Future minimum rentals for the Association's office lease as of September 30, 2004, are as follows:

2005	\$70,916
2006	17,531
	<u>\$88,447</u>

## NOTE 8 - COMMITMENTS (CONTINUED)

Rental expense for the years ended September 30, 2004 and 2003, was \$64,180 and \$63,170 respectively, and is included in office expenses on the statements of activities.

The Association's office lease expires at the end of the first quarter of fiscal year 2006.

Aggregate future minimum payments on the Association's office equipment capital lease obligation as of September 30, 2004, are as follows:

2005	\$3,106
2006	258
Total minimum lease payments	3,364
Less amount representing interest	(208)
Present value of net minimum lease payments	3,156
Less current portion	(2,901)
Long-term portion	\$255

Cash payments on the lease during the years ended September 30, 2004 and 2003, totaled \$3,106 each year.

## NOTE 9 - RELATED PARTY TRANSACTIONS

All cash and cash equivalents of the Association are on deposit with member banks.

Another member bank is acting as funding agent for member bank loans and is paid a monthly servicing fee of one-eighth of 1% of the outstanding principal balance. Total funding agent fees for the years ended September 30, 2004 and 2003, were \$75,755 and \$60,096, respectively.

During the year ended September 30, 2004, four loans with a principal balance of \$4,241,814 were sold, and during the year ended September 30, 2003, nine loans with a principal balance of \$6,062,930 were sold. All of the loan sales during the years ended September 30, 2004 and 2003, were to related parties. All loans were sold for par value.

## NOTE 10 - EMPLOYEE SAVINGS PLAN

The Association has a voluntary contribution 403(b) savings plan for all employees. For the years ended September 30, 2004 and 2003, no contributions were made by the Association to the plan.

The Association has an employer-funded 408(k) simplified employee pension plan for all eligible employees. The Association may make a contribution of up to 15% of each employee's total compensation, within certain limits. For the years ended September 30, 2004, and 2003, the Association had contribution expenses of \$24,008 and \$23,258, respectively.



The Mission of the WCRA includes a strong intention to see that the projects we fund serve a broad range of income levels and are located in all parts of our state. The loan activity information for 2004 reflects both our mission and our intention.

*"...To be a catalyst for the creation and preservation of affordable housing in Washington..."*



From left to right: Gary L. Murphy, Amy Besunder, Judy Reed, Lauren Edlund, Susan M. Duren, and Ann Gorman



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Designed by Ryan Ryle

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