



Meeting Washington's Affordable Housing Needs Through Partnership

WCRA
annual report 2010

Mission Statement

- 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.



Office of Rural & Farmworker Housing

The Office of Rural and Farmworker Housing (ORFH) is a private, statewide nonprofit corporation that develops affordable, high-quality housing for farmworkers, their families and other rural residents of Washington State. ORFH provides direct, comprehensive development services to local nonprofit organizations, housing authorities, municipalities, growers, and others interested in developing affordable housing. ORFH offers all the necessary services to obtain capital financing and assure the quality of both housing construction and management. ORFH also works to establish local, regional and national housing policies and programs that will provide new resources to improve the quality and availability of affordable housing for farmworkers and other low-income rural residents.

www.orfh.org



Vista del Rio

Vista del Rio

Funding Sources: Washington State Department of Commerce – Housing Trust Fund, Washington State Farmworker Housing Trust, USDA-RD 514/516 Program, and WCRA.

Owner: Housing Authority of Chelan County/City of Wenatchee

Vista del Rio is located in East Wenatchee, WA and is owned and operated by the Housing Authority of Chelan County/City of Wenatchee. Vista del Rio consists of 24 sleeping units, 16 one-bedroom units accommodating four low-income seasonal farmworkers in each unit and eight two-bedroom units accommodating low income families and singles. There are 128 beds total. The units have full kitchens, bathroom, living room and dining area. The units have storage and an outside patio area. The development has green space and a play structure for children, security lighting, walkways, plenty of covered parking and a centralized laundry facility. The development was completed in Spring 2009.



Raspberry Ridge

Raspberry Ridge II

Funding Sources: Washington State Department of Commerce – Housing Trust Fund, Enterprise Community Investment , Skagit County 2060/2163 funds, WCRA

Owner: Housing Authority of Skagit County

Raspberry Ridge II is located in Burlington, Washington and is owned and operated by the Housing Authority of Skagit County. The development consists of 30 multi-family apartment units. Raspberry Ridge II serves very low- and extremely low-income farmworker families in Skagit County. All of the units are three-bedroom units. All of the units are built to a year round standard. The development is professionally landscaped with native plants, play structures, and open green space. On-site development also includes pedestrian walkways, and security lighting. The buildings are elevated with parking underneath. The development was completed in Spring 2008.



Vista del Rio & Raspberry Ridge



WCRA 2010 Chair & President's Letter

September 30, 2010 ended the 18th year of operations for the WCRA and this year we experienced a very high demand for new loans. Our loan committee approved a total of \$26,566,536 in loans and we closed \$10,851,065 in commitments. Loans were approved for 19 properties located in 15 cities across the State, creating an additional 1,234 units of affordable rental housing including some special needs units. There were 5 new approvals and 3 loan closing transactions for the Capital Plus! loan program, which is funded through an investment from the Washington State Housing Finance Commission. This year we approved and funded loans in two more counties without existing commitments, thereby extending our State coverage to 85%. Over the course of 18 years we have provided loans in a total of 86 communities statewide. Through our loan programs we have created 15,840 restricted rental units since the inception of WCRA.

We ended another year with positive net revenue and increased our net assets \$292,143 over last year end to a total of \$2,187,864. To assure our continued viability the WCRA refreshes its loan pools through loan sales. During this past year two sales totaling \$9,900,899 were completed with two WCRA members.

During the past year we have had numerous changes in our membership through the FDIC assisted mergers, the end result being a 40 member total, including a gain of 3 members who were not part of the WCRA but now operate in Washington state and will participate in our loan pools. We continue to provide construction loan support to the Department of Commerce and the Washington State Housing Finance Commission, as well as the asset management services required by the American Recovery and Reinvestment Act of 2009.

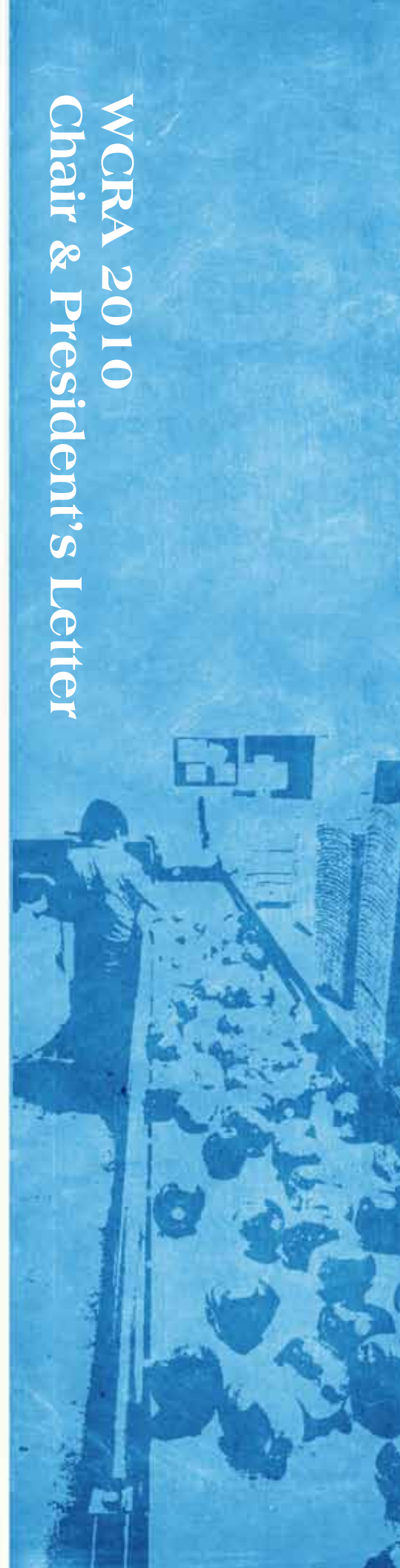
In these challenging times, with so many people needing assistance with their housing costs, the affordable rental housing market is experiencing very high occupancy levels. This allows our portfolio to perform extremely well but makes a strong case for the need for more affordable housing units statewide. Our partnerships remain instrumental in leveraging our loan pools to reach a goal that would make housing available at a reasonable cost to all of our citizens. We can't say enough about the continued support from our member institutions which provide us with the ability to perform our mission in a successful manner and we remain very grateful for their loyalty and commitment.



Larry Burke -Chair



Susan M. Duren -President





**WCRA 2010
Board Of Directors**

**WCRA 2010
Loan Committee**

WCRA 2010 Board of Directors

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Michael Dotson, Bank of America	Vice-Chair
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Paul Edwards, Washington State Housing Finance Commission	
Lisa Vatske, Washington State Department of Commerce	
Steven Mong, Wells Fargo Bank	

WCRA 2010 Loan Comittee

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Martin Hughes, JP Morgan Chase	
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Tina Ilvonen, US Bank	
Fred Reininger, Washington Federal Savings	
Christine Rush, Wells Fargo Bank	



WCRA 2010 Membership

WCRA 2010 Membership

1st SECURITY BANK OF WASHINGTON

AMERICANWEST BANK

ANCHOR BANK

BANK OF AMERICA

BANK OF THE PACIFIC

BANK OF THE WEST

BANK OF WHITMAN

BANNER BANK

CASCADE BANK

CASHMERE VALLEY BANK

CATHAY BANK

CHARTER PRIVATE BANK

COLUMBIA STATE BANK

THE COMMERCE BANK OF WASHINGTON, N.A.

EAST WEST BANK

FIRST CITIZENS BANK

FIRST FEDERAL S&L ASSN. OF PORT ANGELES

FIRST SAVINGS BANK NORTHWEST

FORTUNE BANK

FOUNDATION BANK

HERITAGE BANK

HOMESTREET BANK

JP MORGAN CHASE, N.A.

KEY BANK

NORTHERN TRUST BANK

OLYMPIA FEDERAL S&L ASSN.

RIVERVIEW COMMUNITY BANK

SEATTLE BANK

SKAGIT STATE BANK

STERLING SAVINGS BANK

TIMBERLAND BANK

UMPQUA BANK

UNION BANK

U.S. BANK

WASHINGTON FEDERAL SAVINGS

WASHINGTON TRUST BANK

WELLS FARGO BANK

WEST COAST BANK

WHIDBEY ISLAND BANK

YAKIMA FEDERAL S&L ASSN.

EASTERN WASHINGTON 8%

CENTRAL WASHINGTON 21%

PIERCE, KING, SNOHOMISH 42%

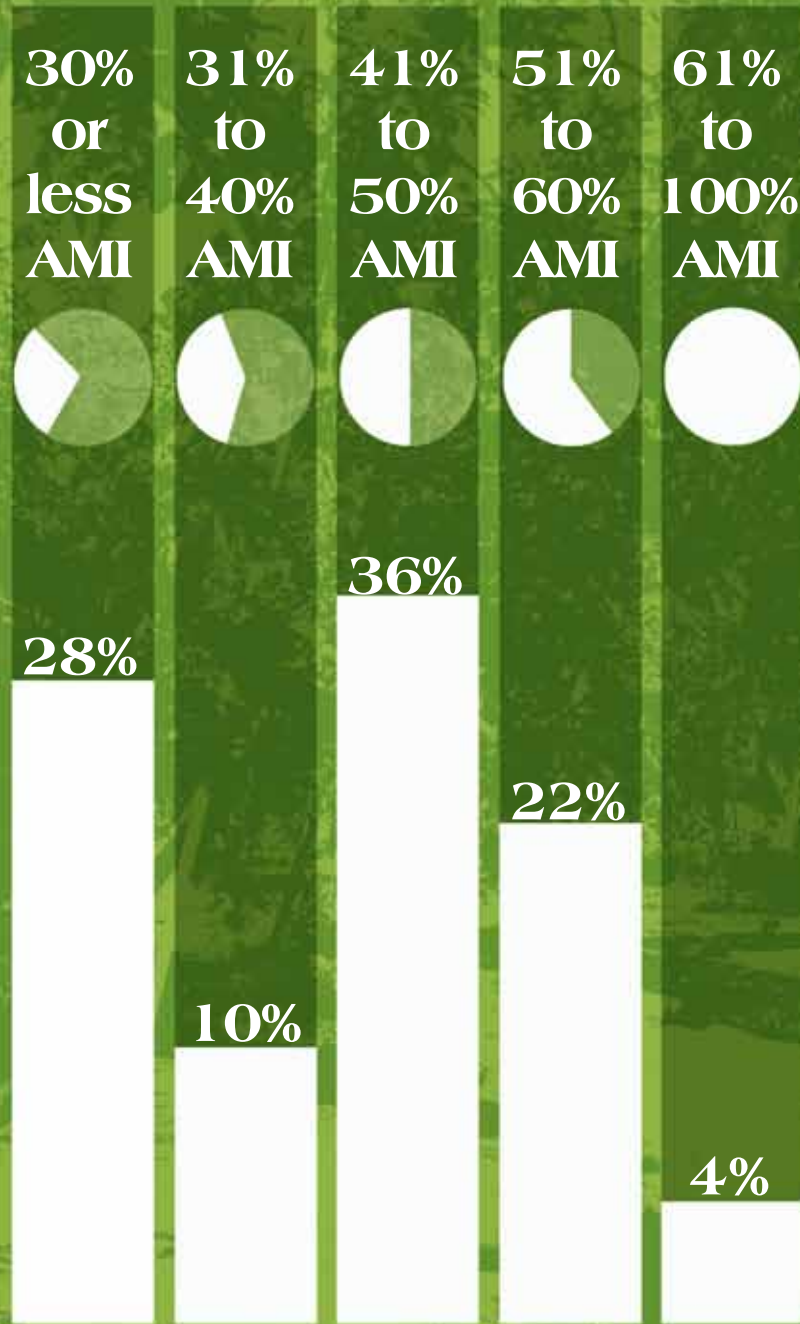
WESTERN WASHINGTON 29%

Fiscal Year 2010 Number of Loans by Region

Fiscal Year 2010 Number of Units by County



Fiscal Year 2010 Loans by Income Served % AMI



Loans

Projects Funded

8 Projects
362 units

\$10,851,065

New Projects Approved

19 Projects
993 units

\$26,566,536

Washington Community Reinvestment Association and Subsidiary

Independent Auditor's Report & Consolidated Financial Statements

September 30, 2010 and 2009

To the Board of Directors

Washington Community Reinvestment Association and Subsidiary

We have audited the accompanying consolidated statement of financial condition of Washington Community Reinvestment Association and Subsidiary (the Association) as of September 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Washington Community Reinvestment Association and Subsidiary as of September 30, 2010 and 2009, and the results of their activities and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Mass Adams LLP

Everett, Washington

November 12, 2010

WCRA & Subsidiary Consolidated Statement Of Financial Condition

	SEPTEMBER 30,	
	2010	2009
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 1,107,119	\$ 1,530,294
RESTRICTED CASH	2,474	2,474
INTEREST-BEARING DEPOSITS	1,225,827	1,194,723
INTEREST RECEIVABLE	397,117	426,426
ACCOUNTS RECEIVABLE AND PREPAID EXPENSES	40,770	41,996
LOANS HELD FOR INVESTMENT, net	69,799,598	72,390,409
REAL ESTATE OWNED	282,381	-
EQUIPMENT AND VEHICLES, net	4,467	9,150
Total assets	\$ 72,859,753	\$ 75,595,472
LIABILITIES AND UNRESTRICTED NET ASSETS		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$ 199,075	\$ 150,146
INTEREST PAYABLE	344,912	371,495
DEFERRED RENT PAYABLE	13,527	12,856
DEFERRED REVENUE	2,474	2,474
PAYABLE TO WSHFC	282,381	229,029
LOANS PAYABLE - WSHFC	4,694,600	4,741,123
NOTES PAYABLE - MEMBER INSTITUTIONS	65,134,920	68,192,629
Total liabilities	70,671,889	73,699,752
UNRESTRICTED NET ASSETS	2,187,864	1,895,720
Total	\$ 72,859,753	\$ 75,595,472

WCRA & Subsidiary Consolidated Statement Of Activities

	YEAR ENDED SEPTEMBER 30,	
	2010	2009
REVENUES		
Interest income	\$ 5,069,012	\$ 5,013,446
Loan fees	238,060	67,044
Construction loan review revenue	346,864	159,173
Gain on sale of loans	900	-
Other contributions	-	726
Total revenues	5,654,836	5,240,389
EXPENSES		
Interest expense	4,126,996	4,070,739
Salaries and related expenses	539,037	524,600
Provision for loan losses	-	20,880
Professional fees	379,740	203,593
Office expenses	101,543	98,345
Other expenses	197,876	138,822
Loss on sale of real estate owned	-	11,343
Contributions and grants	17,500	16,000
Total expenses	5,362,692	5,084,322
CHANGE IN UNRESTRICTED NET ASSETS	292,144	156,067
Unrestricted net assets, beginning of year	1,895,720	1,739,653
Unrestricted net assets, end of year	\$ 2,187,864	\$ 1,895,720

See accompanying notes.

WCRA & Subsidiary Consolidated Statement Of Cash Flows

	YEAR ENDED SEPTEMBER 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from		
Loan fees	\$ 201,478	\$ 94,731
Other fees	80,723	28,070
Interest	5,098,321	5,011,599
Construction loan review revenue	347,057	148,077
	<u>5,727,579</u>	<u>5,282,477</u>
Cash paid to		
Employees	(506,573)	(504,015)
Vendors	(724,999)	(580,151)
Prepayment fees	(43,052)	-
Interest	(4,153,579)	(4,060,452)
	<u>(5,428,203)</u>	<u>(5,144,618)</u>
Net cash from operating activities	<u>299,376</u>	<u>137,859</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Origination of loans held for investment	(11,916,065)	(4,039,579)
Loan principal collected on loans held for investment	4,385,031	2,808,108
Proceeds from sale of loans	9,894,217	-
Proceeds from sale of real estate owned	-	677,550
Repayment of payable to WSHFC	(229,029)	-
Purchase of equipment	(3,750)	(2,174)
Purchase of interest-bearing deposits	(1,225,266)	(1,360,888)
Maturity of interest-bearing deposits	1,194,162	1,321,216
Net cash from investing activities	<u>2,099,300</u>	<u>(595,767)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable from member institutions and WSHFC related to loans held for investment	11,916,065	4,039,579
Principal repayments on notes payable from member institutions and WSHFC related to loans held for investment	(4,949,845)	(2,838,217)
Principal repayments on loans sold	(9,788,071)	-
Net cash from financing activities	<u>(2,821,851)</u>	<u>1,201,362</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(423,175)	743,454
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,532,768</u>	<u>789,314</u>
End of year	<u>\$ 1,109,593</u>	<u>\$ 1,532,768</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE CONSOLIDATED STATEMENT OF FINANCIAL CONDITION		
Cash and cash equivalents	\$ 1,107,119	\$ 1,530,294
Restricted cash	<u>2,474</u>	<u>2,474</u>
	<u>\$ 1,109,593</u>	<u>\$ 1,532,768</u>

See accompanying notes.

WCRA & Subsidiary Consolidated Statement Of Cash Flows (continued)

	YEAR ENDED SEPTEMBER 30,	
	2010	2009
RECONCILIATION OF CHANGE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ 292,144	\$ 156,067
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities		
Depreciation	8,432	7,274
Gain on sale of loans	(900)	-
Provision for loan losses	-	20,880
Loss on sale of real estate owned	-	11,343
Change in operating assets and liabilities		
Interest receivable	29,309	(1,847)
Accounts receivable and prepaid expenses	1,226	(15,155)
Deferred loan fees	(53,855)	1,851
Accounts payable and accrued liabilities	48,932	(45,702)
Interest payable	(26,583)	10,287
Deferred rent payable	671	(7,139)
NET CASH FROM OPERATING ACTIVITIES	\$ 299,376	\$ 137,859
NONCASH INVESTING ACTIVITIES		
Transfer of loan held for investment to real estate owned	\$ 282,381	\$ 459,864
Transfer of loans payable - WSHFC to payable WSHFC	\$ 282,381	\$ -
Transfer of loans held for investment to loans held for sale	\$ 9,893,319	\$ -
Transfer of excess proceeds for sale of real estate owned to payable to WSHFC	\$ -	\$ 229,029

See accompanying notes.

WCRA & Subsidiary Notes to Consolidated Financial Statements

Note 1 - Organization and Principles of Consolidation

The Washington Community Reinvestment 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 institutions under the Credit and Security Agreement (the Agreement) at predetermined percentages, based upon each member's proportionate customer deposits to the member institutions' deposits in total. The consolidated financial statements include the transactions of the Washington Community Reinvestment Association and its wholly owned subsidiary, 1200 Fifth

LLC (collectively, the Association). 1200 Fifth LLC was formed to own real property acquired through default from the Association's portfolio. All significant intercompany transactions and balances have been eliminated in consolidation.

The Association has a revolving loan and investment fund. 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 Association makes grants and contributions to nonprofit entities for approved projects. The annual amount of these contributions and grants is determined by the board of directors each year.

The Association has a program to assist potential borrowers in obtaining permanent financing for multifamily projects through

Note 1 - Organization and Principles of Consolidation (continued)

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.

Effective May 28, 2002, the Association entered into a contract with the State of Washington Department of Commerce (formerly the 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.

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) of up to \$7,000,000 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 consolidated statement of financial condition.

Effective September 1, 2009, the Association entered into a contract with the WSHFC for the purposes of providing construction overview and other services relating to WSHFC's program to create affordable housing in the state.

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 - Cash equivalents are any highly liquid investments with a remaining maturity of three months or less at the date of purchase.

Interest-bearing deposits - Interest-bearing deposits consist of certificates of deposit and money market accounts and are presented at cost and may exceed federally insured limits.

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 as part of the gain on sale when the loans are sold. There are no loans held for sale at September 30, 2010 and 2009. During 2010, certain loans were transferred to loans held for sale and were sold prior to September 30, 2010.

Transfers of financial assets - Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Association, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Association does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

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 Association's Credit and Security Agreement, 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 nonaccrual, 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 probable 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 general allowance and specific allowance.

The general allowance is calculated by applying a loss percentage factor to the portfolio loans based on the internal credit grading and classification system and current economic and business 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 impaired 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.

Rate lock commitments on loans and notes payable - The Association enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock

Note 2 - Summary of Significant Accounting Policies (continued) commitments). Rate lock commitments on loans that are intended to be sold are considered to be derivatives. The Association's cost of borrowing to fund the originated loans held for sale is based upon the interest rate of such loans. The commitments to the Association to borrow from member institutions related to the loans held for sale are also derivatives. These derivatives are recorded at fair value, with the change in fair value recorded in earnings. Fair value is based on fees currently charged to enter into similar agreements and, for fixed-rate commitments, also considers the difference between current levels of interest rates and the committed rates. These commitments do not expose the Association to interest rate risk because the associated risk is borne by the member institutions. At September 30, 2010 and 2009, there were no rate lock commitments on loans that are intended to be held for sale.

Real estate owned - Properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at the lower of the recorded investment or its fair value less cost to sell at the date of foreclosure, establishing a new cost basis. After foreclosure, management periodically performs valuations and the real estate is carried at the lower of carrying amount or fair value less cost to sell. Any subsequent write-downs are recorded as a decrease in the asset and charged against operating expenses.

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, 2010 and 2009, the amount of funds held for customers in escrow was \$6,224,873 and \$6,432,636, respectively.

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. Restricted cash was \$2,474 at September 30, 2010 and 2009.

Functional allocation of expenses - To provide information regarding 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 fundraising 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. At September 30, 2010 and 2009, the Association has used significant estimates in determining the allowance for loan losses and real estate owned.

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.

Fair value measurements - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements follow a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources, while unobservable inputs reflect our estimates about market data. In general, fair values determined by Level 1 inputs use quoted prices for identical assets or liabilities traded in active markets that the Association has the ability to access. Fair values determined by Level 2 inputs use inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Association's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. At September 30, 2010 and 2009, there were no assets or liabilities measured at fair value on a recurring or nonrecurring basis. The real estate owned on the consolidated statement of financial condition is carried at cost, which is currently less than fair market value.

Subsequent events - Subsequent events are events or transactions that occur after the consolidated statement of financial condition date but before financial statements are available to be issued. The Association recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial condition, including the estimates inherent in the process of preparing the financial statements. The Association's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial condition but arose after the consolidated statement of financial condition date and before the financial statements are available to be issued. The Association has evaluated subsequent events through November 12, 2010, which is the date the financial statements are available to be issued, and no subsequent events occurred requiring accrual or disclosure.

Note 3 - Equipment and Vehicles

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

	2010	2009
Equipment	\$ 105,733	\$ 101,984
Less accumulated depreciation	(101,266)	(92,834)
	<u>\$ 4,467</u>	<u>\$ 9,150</u>

Depreciation expense for the years ended September 30, 2010 and 2009, was \$8,432 and \$7,274, respectively.

Note 4 - Loans Held for Investment

Loans held for investment consist of the following at September 30:

	2010	2009
Real estate loans	\$ 70,924,016	\$ 73,568,682
Less		
Allowance for loan losses	(309,470)	(309,470)
Deferred loan fees	(814,948)	(868,803)
	<u>\$ 69,799,598</u>	<u>\$ 72,390,409</u>

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

	Held for Investment	Total
2010		
Allowance for loan losses, beginning of year	\$ 309,470	\$ 309,470
Provision for loan losses	-	-
	<u>\$ 309,470</u>	<u>\$ 309,470</u>
2009		
Allowances for loan losses, beginning of year	\$ 288,590	\$ 288,590
Provision for loan losses	20,880	20,880
	<u>\$ 309,470</u>	<u>\$ 309,470</u>

During the year ended September 30, 2010, the Association sold loans to member institutions as described in Note 9. No loans were sold during the year ended September 30, 2009.

The loans originated by the Association are secured by a first deed of trust on the subject property of each loan. Loans are collateralized by real property or other security located within the state of Washington.

During the year ended September 30, 2010, the Association, in lieu of foreclosure, accepted a deed on real estate collateral of a WSHFC loan. At September 30, 2010, the asset is in the line item title *Real Estate Owned* and the liability is in the line item titled *Payable to WSHFC*, respectively, in the consolidated statement of financial condition.

There are no impaired or nonaccrual loans at September 30, 2010 and 2009.

There were no loans past due more than 90 days and still accruing interest at September 30, 2010 and 2009.

Note 5 - Notes Payable - Member Institutions

Funding for loans originated by the Association has been provided by member institutions 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 \$44,996,421 and \$52,196,973 were outstanding at September 30, 2010 and 2009, respectively, and \$23,251,031 was approved to be funded for loan commitments (Note 8) as of September 30, 2010. As stated in the Agreement, the terms of the Association's borrowings from member institutions are substantially the same as the terms of the loans the Association will originate. The member institutions receive an assignment of collateral of the specific loans 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 institutions 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 a minimum of 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 institutions to provide additional funds for new loans and loan commitments to maintain lending capacity. Effective February 15, 2001, this agreement was amended. Twenty-six member institutions 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 \$24,362,000, of which \$300,000 is nonrevolving. As of September 30, 2010 and 2009, the outstanding amounts were \$18,296,487 and \$14,061,844, respectively, and \$4,948,755 was approved to be funded for loan commitments (Note 8) on the line of credit as of September 30, 2010. Similar to the revolving line of credit above, the member institutions receive an assignment of collateral of the specific loans 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 institutions for the revolving line of credit is a minimum of 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 line of credit from certain member institutions for the purpose of economic development lending. The maximum limit on the line of credit is \$7,700,000, of which \$7,500,000 is revolving and \$200,000 is non-revolving. As of September 30, 2010 and 2009, the outstanding amounts were \$1,842,012 and \$1,933,812, respectively, and \$1,205,000 was approved to be funded for loan commitments (Note 8) as of September 30, 2010. Similar to the revolving lines of credit above, the member institutions receive an assignment of collateral of the specific loans equal to their respective equity percentage interest in each specific note payable. A

Note 5 - Notes Payable - Member Institutions (continued)

nominal interest rate spread is retained by the Association to cover operating expenses. The interest rate on notes payable to member institutions for the revolving line of credit is a minimum of 1.50% over the applicable rate on U.S. government securities having a term consistent with the term of the underlying note payable.

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

YEAR ENDING SEPTEMBER 30,	AMOUNT
2011	\$ 1,199,121
2012	1,272,861
2013	3,422,313
2014	4,307,492
2015	6,978,376
Thereafter	47,954,757
	<u>\$ 65,134,920</u>

Notes payable - member institutions, at September 30, 2010, bear interest at rates ranging from 4.70% to 8.11%. The notes are payable in monthly installments, including principal and interest.

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 \$7,000,000. As of September 30, 2010 and 2009, the outstanding amounts were \$4,694,000 and \$4,741,123, respectively, and \$0 was approved to be funded for loan commitments (Note 8) as of September 30, 2010. A nominal interest rate spread is retained by the Association to cover operating expenses. The interest rate on the loans charged by 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
2011	\$ 109,129
2012	118,220
2013	123,959
2014	129,977
2015	731,257
Thereafter	3,482,058
	<u>\$ 4,694,600</u>

Note 7 - Contributions From Member Institutions

Contributions from member institutions were made by the Association's member institutions 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, 2010 and 2009, there were no new member assessments collected.

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

The principal balance related to loan commitments to

borrowers and member institutions at September 30, 2010, was \$29,404,786, all of which was related to affordable housing projects. Commitments to extend credit generally have fixed expiration dates. Because 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. Loans are collateralized by real property or other security located within the state of Washington.

Contractual future minimum rental payments for the Association's office lease as of September 30, 2010, are as follows:

2011	\$ 69,000
2012	71,250
2013	73,500
2014	75,750
2015	78,000
Thereafter	100,500
	<u>\$ 468,000</u>

Rental expense for the years ended September 30, 2010 and 2009, was \$72,523 and \$71,550, respectively, and is included in office expenses on the consolidated statement of activities.

The Association's office lease expires in January 2017.

Contractual future minimum rental payments for the Association's copier lease as of September 30, 2010, are as follows:

2011	\$ 2,208
2012	2,208
2013	2,208
2014	2,208
	<u>\$ 8,832</u>

Note 9 - Related Party Transactions

All cash and cash equivalents of the Association are on deposit with member institutions. The Association holds interest-bearing deposits with member institutions. Total related party interest-bearing deposits at September 30, 2010 and 2009, were \$1,225,266 and \$1,194,162, respectively.

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, 2010 and 2009, were \$85,470 and \$83,351, respectively.

During the year ended September 30, 2010, nine loans with a principal balance of \$9,893,319 were sold at the unpaid principal balance, plus \$100 per loan, to a related party. Unamortized net deferred fees on these nine loans of \$70,338 were recognized in income at the date of sale.

Note 10 - Employee Savings Plan

The Association has a voluntary contribution 403(b) savings plan for all employees. For the years ended September 30, 2010 and 2009, 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, 2010 and 2009, the Association had contribution expenses of \$30,253 and \$19,539, respectively.



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