WCRA

Washington Community Reinvestment Association

annual report 2008

Meeting Washington's Affordable Housing Needs Through Partnership

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.

This year's annual report features three properties that have the Housing Authority of the City of Bellingham (HACB) as the managing member. The agency serves roughly 3,000 residents in Whatcom County and works to provide needed housing in their community. They serve a range of demographics including low-income families, people with disabilities, working families in need of affordable housing and senior citizens.

HACB's mission is to "provide quality, affordable housing for low and moderate income families, elderly households, and persons with disabilities through innovative resource development and responsible stewardship of our housing and fiscal resources." They do an excellent job of meeting this objective by offering public, private, affordable and special needs housing.

THE LAUBE HOTEL

The Laube Hotel is located in the Bellingham central business district in a 1903 building with commercial space on the first floor and 20 apartment units in a mix of studio and one-bedroom units on the upper two floors. The apartments have regulatory requirements that the rents do not exceed 30%, 50% and 60% of the area median income. In addition, 2 units are set aside for formerly homeless and 4 units are set aside for households with disabilities. Other funding was provided by the City of Bellingham and the Washington State Department of Community, Trade and Economic Development. The tax credit investor is Homestead Capital.

1903

2008

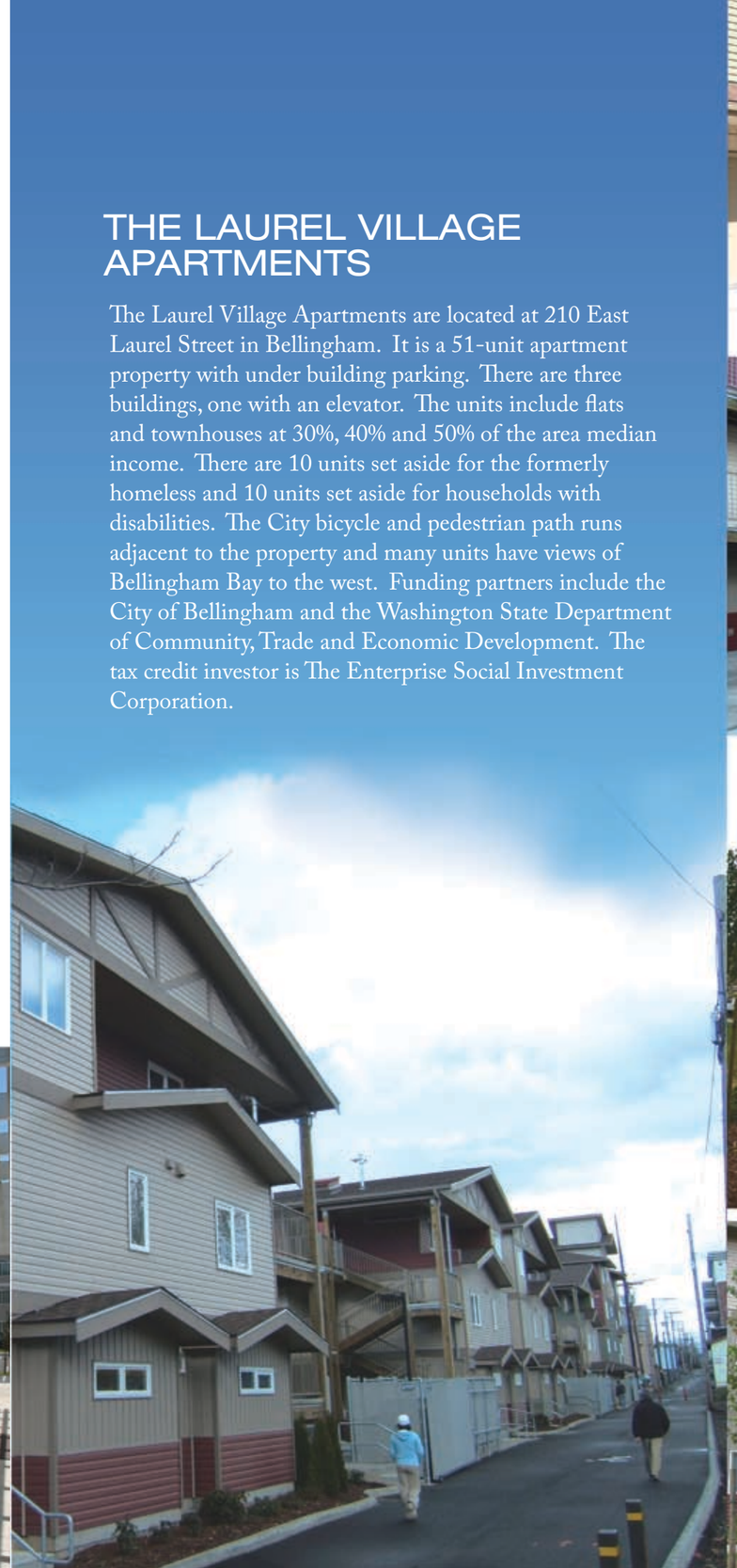
MEADOW WOOD TOWNHOMES

Meadow Wood Townhomes is located north of downtown Bellingham near the Bellis Fair Mall on Aldrich Road. The units include both flats and townhouses at 30%, 50% and 60% of the area median income. There are 51 apartment units and a community building with laundry and meeting space along with the manager's office. There are 10 units set aside for formerly homeless and 10 units set aside for households with disabilities. The City of Bellingham and the Washington State Department of Community, Trade and Economic Development provided additional funding. The Enterprise Social Investment Corporation purchased the tax credits.

Patio off of community center

THE LAUREL VILLAGE APARTMENTS

The Laurel Village Apartments are located at 210 East Laurel Street in Bellingham. It is a 51-unit apartment property with under building parking. There are three buildings, one with an elevator. The units include flats and townhouses at 30%, 40% and 50% of the area median income. There are 10 units set aside for the formerly homeless and 10 units set aside for households with disabilities. The City bicycle and pedestrian path runs adjacent to the property and many units have views of Bellingham Bay to the west. Funding partners include the City of Bellingham and the Washington State Department of Community, Trade and Economic Development. The tax credit investor is The Enterprise Social Investment Corporation.



Community room courtyard

Third courtyard

Facing bike trail

WCRA

Chair & President's Letter

In spite of the crisis affecting the financial markets, our 2008 year resulted in an increase on our unrestricted net assets to $1,739,653, a gain of over $300,000 for the year. There were a total of 8 new applications and 2 loan increases, totalling $10,404,845. We closed and funded $11,291,780 including one *Capital Plus!* transaction (our Washington State Housing Finance Commission partner funding source). The closed loans provided 419 units of affordable rental housing and 8,722 square feet of commercial space. A nonprofit sponsor was part of all of the new applications benefiting the cities of Spokane, Burlington, Bellingham, Olympia, Seattle, Bellevue and Issaquah. In the third quarter we offered a package of loans in the amount of $5 million for sale to the member banks and Anchor Bank, after their due diligence, purchased all the loans. These funds provided the WCRA with additional lending capacity.

We welcomed Fortune Bank as a new member and, following a member retreat, updated our strategic plan for five more years. Our board secretary, Loren Dixon of Banner Bank, retired and we were pleased to have Mike Bush of Washington Federal Savings step into the position.

In these uncertain economic times, the creation of more affordable rental housing is critical for so many of the communities around the State. Now that we have concluded our seventeenth year of operation, we are pleased to report that we have created 8,457 units of housing, over 100,000 square feet of economic development property and have made loans on properties in 72 % of Washington's counties.

With the help of our members and our public partnerships, the WCRA continues to provide loan programs for safe and affordable housing, meeting the needs of families, seniors, the formerly homeless and individuals with disabilities.

Larry Burke
Chair

Susan M. Duren
President

WCRA 2008 BOARD OF DIRECTORS

Larry Burke, KeyBank	Chair
Michael Dotson, Bank of America	Vice-Chair
Susan M. Duren, WCRA	President
Mike Bush, Washington Federal Savings	Secretary
John R, Swanson, US Bank	Treasurer
Guillermo Sandoval, Banner Bank	
Paul Edwards, Washington State Housing Finance Commision	
M.A. Leonard	
Karen McCormick, First Federal Savings and Loan Association of Port Angeles	
Steve Mong, Wells Fargo Bank	
Robert Morris, Washington Mutual	
Bill Richards, Sterling Savings Bank	
Lisa Vatske, WA State Dept. CTED	
Heyward Watson, Impact Capital	

WCRA 2008 LOAN COMMITTEE

Lauren Jassny, The Commerce Bank of Washington, N.A. Chair

Rob Draper, Bank of America
Ernie Ballou, Cowlitz Bank
Fred Reininger, First Mutual Bank
Jay A. Coleman, KeyBank
Carolyn Middleton, Rainier Pacific Bank
Ann T. Melone, US Bank
Don McKim, Washington Mutual Bank
Christine Rush, Wells Fargo Bank

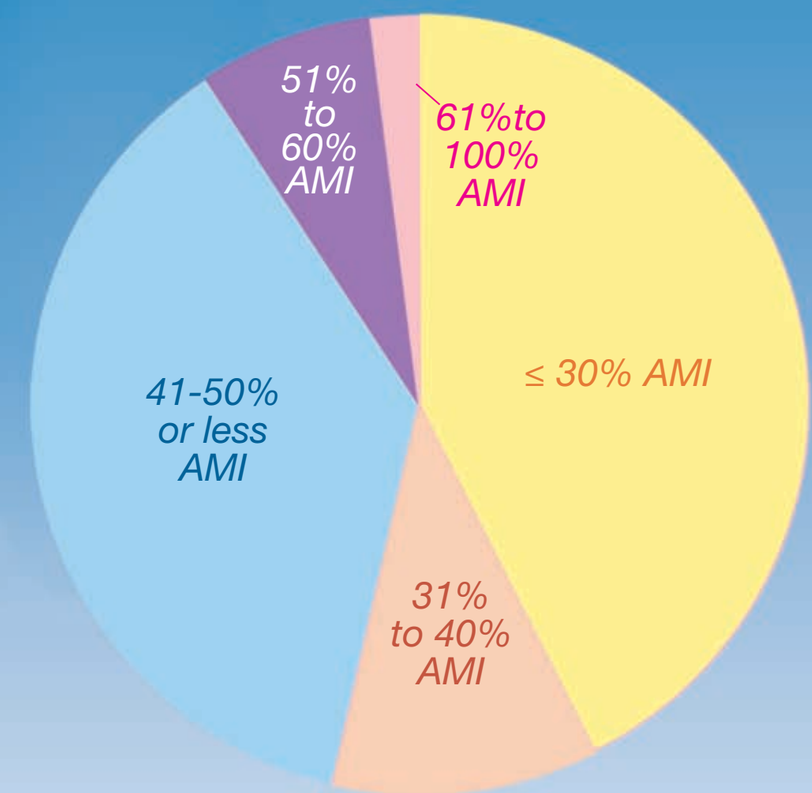
WASHINGTON COMMUNITY REINVESTMENT ASSOCIATION MEMBERSHIP 2008

1st Security Bank of Washington
American Marine Bank
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 Bank
City Bank
Columbia Bank
Columbia River Bank
The Commerce Bank of Washington, N.A.
Cowlitz Bank
Evergreen Bank
First Federal Savings and Loan Association of Port Angeles
First Savings Bank Northwest
Fortune Bank
Foundation Bank
Frontier Bank
Heritage Bank
HomeStreet Bank
Horizon Bank
KeyBank
Northern Trust Bank
Olympia Federal Savings and Loan Association
Rainier Pacific Bank
Riverview Community Bank
Skagit State Bank
Sterling Savings Bank
Timberland Bank
Union Bank of California
U.S. Bank
Venture Bank
Washington Federal Savings
Washington First International Bank
Washington Mutual Bank
Washington Trust Bank
Wells Fargo Bank
West Coast Bank
Whidbey Island Bank
Yakima Federal Savings and Loan Association

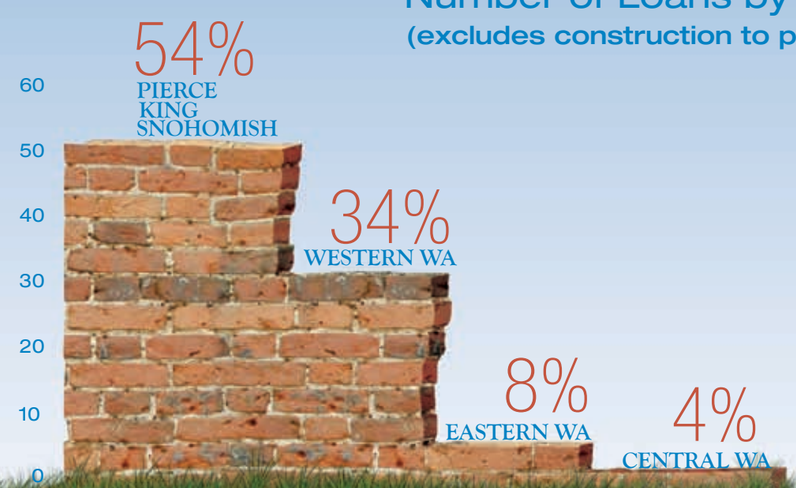
Fiscal Year 2008 Number of Units by County

Fiscal Year 2008 Loans by Income Served
(% of AMI)

Units at 30% or less of AMI:	41%
Units at 31-40% of AMI:	11%
Units at 41-50% of AMI:	36%
Units at 51-60% of AMI:	7%
Units at 61-100% of AMI:	5%



Fiscal Year 2008 Number of Loans by Region
(excludes construction to permanent program)



Projects Funded

12 Projects

(419 units and 8,722 sq. ft. of office/retail space)

$11,291,780

New Projects Approved

9 Projects

(253 units and 15,297 sq. ft. of office/retail space)

$10,303,345

Washington Community Reinvestment Association and Subsidiary

Independent Auditor's Report & Consolidated Financial Statements

September 30, 2008 and 2007

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, 2008 and 2007, 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, 2008 and 2007, and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Everett, Washington
November 14, 2008

WCRA & Subsidiary Consolidated Statement Of Financial Condition

	SEPTEMBER 30, 2008	SEPTEMBER 30, 2007
ASSETS		
CASH AND CASH EQUIVALENTS	$ 786,114	$ 725,888
RESTRICTED CASH	3,200	3,200
INTEREST-BEARING DEPOSITS	1,155,051	1,186,524
INTEREST RECEIVABLE	424,579	383,730
ACCOUNTS RECEIVABLE AND PREPAID EXPENSES	26,841	16,782
LOANS HELD FOR SALE, net	-	62,131,922
LOANS HELD FOR INVESTMENT, net	71,641,533	4,226,998
EQUIPMENT AND VEHICLES, net	14,250	1,866
Total assets	$ 74,051,568	$ 68,676,910
LIABILITIES AND UNRESTRICTED NET ASSETS		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 195,122	$ 141,187
INTEREST PAYABLE	361,208	341,047
DEFERRED RENT PAYABLE	19,995	24,136
DEFFERED REVENUE	3,200	3,200
LOANS PAYABLE - WSHFC	5,003,134	4,089,053
NOTES PAYABLE - MEMBER INSTITUTIONS	66,729,256	62,642,512
Total liabilities	72,311,915	67,241,135
UNRESTRICTED NET ASSETS	1,739,653	1,435,775
Total	$ 74,051,568	$ 68,676,910

WCRA & Subsidiary Consolidated Statement Of Activities

	YEAR ENDED SEPTEMBER 30, 2008	YEAR ENDED SEPTEMBER 30, 2007
REVENUES		
Interest income	$ 4,935,225	$ 4,662,511
Gain on sale of loans	77,779	97,597
Loan fees	36,261	39,034
CTED construction loan review revenue	117,060	123,141
Contributions from member institutions	5,000	7,500
Other contributions	9,005	20,050
Total revenues	5,180,330	4,949,833
EXPENSES		
Interest expense	3,978,113	3,771,554
Salaries and related expenses	521,338	501,343
Reversal of provision for loan losses	(47,110)	(27,400)
Professional fees	166,424	172,300
Office expenses	95,214	94,782
Other expenses	142,273	145,160
Contributions and grants	20,200	21,400
Total expenses	4,876,452	4,679,139
CHANGE IN UNRESTRICTED NET ASSETS	303,878	270,694
Unrestricted net assets, September 30, 2007	1,435,775	1,165,081
Unrestricted net assets, September 30, 2008	$ 1,739,653	$ 1,435,775

See accompanying notes

WCRA & Subsidiary Consolidated Statement Of Cash Flows

	YEAR ENDED SEPTEMBER 30, 2008	YEAR ENDED SEPTEMBER 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from		
Proceeds from notes payable from member institutions related to loans held for sale	$ 2,400,000	$ 10,760,805
Loan fees	129,280	122,674
Other fees	38,552	41,147
Interest	4,894,376	4,646,314
Loan principal collected on loans held for sale	450,140	2,552,188
CTED construction loan review revenue	113,111	124,153
Contributions from member institutions	5,000	7,500
Other contributions	-	16,750
Proceeds from sale of loans held for sale	5,038,903	5,135,345
	13,069,362	23,406,876
Cash paid to		
Originations of loans held for sale	(2,400,000)	(10,760,805)
Employees	(456,721)	(483,794)
Vendors	(494,666)	(509,766)
Interest	(3,957,952)	(3,743,810)
Member institutions related to loans held for sale	(5,498,604)	(7,763,117)
	(12,807,943)	(23,261,292)
Net cash from operating activities	261,419	145,584
CASH FLOWS FROM INVESTING ACTIVITIES		
Origination of loans held for investment	(8,891,780)	(1,201,500)
Loan principal collected on loans held for investment	569,692	407,034
Proceeds from sale of equipment	-	451
Purchase of equipment	(10,007)	(1,807)
Purchase of interest-bearing deposits	(1,154,490)	(719,034)
Maturity of interest-bearing deposits	1,185,963	675,214
Net cash from investing activities	(8,300,622)	(839,642)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable from member institutions and WSHFC related to loans held for investment	8,781,780	1,201,500
Principal repayments on notes payable from member institutions and WSHFC related to loans held for investment	(682,351)	(418,001)
Net cash from financing activities	8,099,429	783,499
NET INCREASE IN CASH AND CASH EQUIVALENTS	60,266	89,441
CASH AND CASH EQUIVALENTS		
Beginning of year	729,088	639,647
End of year	$ 789,314	$ 729,088

See accompanying notes

WCRA & Subsidiary Consolidated Statement Of Cash Flows (continued)

	YEAR ENDED SEPTEMBER 30, 2008	2007
RECONCILIATION OF CHANGE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in unrestricted net assets	$ 303,878	$ 270,694
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities		
Depreciation	6,628	6,163
Other Contributions	(9,005)	-
Reversal of provision for loan losses	(47,110)	(27,400)
Changes in operating assets and liabilities		
Interest receivable	(40,849)	(16,197)
Accounts receivable and prepaid expenses	(10,059)	10,664
Loans held for sale	3,088,443	(3,073,672)
Deferred loan fees	(1,858)	(37,085)
Accounts payable and accrued liabilities	53,935	(8,570)
Interest payable	20,161	27,744
Deferred rent payable	(4,141)	(1,145)
Deferred revenue	-	(3,300)
Notes payable - member institutions related to loans held for sale	(3,098,604)	2,997,688
NET CASH FROM OPERATING ACTIVITIES	$ 261,419	$ 145,584
NONCASH OPERATING ACTIVITIES		
Unrealized gain (loss) on lock commitments on notes payable	$ -	$ 65,455
Unrealized gain (loss) on lock commitments on loans	$ -	$ (65,455)
NONCASH INVESTING ACTIVITIES		
Transfer of loans held for sale to loans held for investment	$ 60,222,233	$ -

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 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 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 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 - Cash equivalents are any highly liquid investments with a remaining maturity of three months or less at the date of purchase. The Association has cash and cash equivalents on deposit with financial institutions in amounts that periodically exceed the federal insurance limit. The Association evaluates the credit quality of these financial institutions to mitigate its credit risk.

Interest-Bearing Deposits - Interest-bearing deposits consist of certificates of deposit and money market accounts and are presented at cost.

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.

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 Agreements, the WSHFC Agreement, loans originated with the Association's cash reserves, and other loans originated by the Association.

Note 2 - Summary of Significant Accounting Policies (continued)

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 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 is based upon the interest rate of such loans. The commitments to the Association to borrow from member institutions 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 as the associated risk is borne by the member institutions.

Foreclosed real estate - 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, 2008 and 2007, the amount of funds held for customers in escrow was $5,714,635 and $4,792,389, 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 $3,200 at September 30, 2008 and 2007.

Functional allocation of expenses - 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 amounts in the prior years' financial statements 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:

	2008	2007
Equipment	$ 99,810	$ 99,635
Less accumulated depreciation	(85,560)	(97,769)
	$ 14,250	$ 1,866

Depreciation expense for the years ended September 30, 2008 and 2007 was $6,628 and $6,163, respectively.

Note 4 - Loans Receivable

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

	Held for sale	Held for Investment	Total
2008			
Real estate loans	$ -	$ 72,797,075	$ 72,797,075
Less:			
Allowance for loan losses	-	(288,590)	(288,590)
Deferred loan fees	-	(866,952)	(866,952)
	$ -	$ 71,641,533	$ 71,641,533
2007			
Real estate loans	$ 63,310,676	$ 4,252,754	$ 67,563,430
Less:			
Allowance for loan losses	(314,400)	(21,300)	(335,700)
Deferred loan fees	(864,354)	(4,456)	(868,810)
	$ 62,131,922	$ 4,226,998	$ 66,358,920

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

2008			
Allowance for loan losses - beginning of year	$ 314,400	$ 21,300	$ 335,700
Transfer of allowance for loans losses	(314,400)	314,400	-
Reversal of provision for loan losses	-	(47,110)	(47,110)
Allowances for loan losses - end of year	$ -	$ 288,590	$ 288,590
2007			
Allowances for loan losses- beginning of year	$ 345,800	$ 17,300	$ 363,100
Provision (benefit) for loan losses	(31,400)	4,000	(27,400)
Allowance for loan losses - end of year	$ 314,400	$ 21,300	$ 335,700

During the years ended September 30, 2008 and 2007, the Association sold loans to member institutions as described in Note 9.

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.

On March 31, 2008, the Association transferred $60,222,233 of loans held for sale to their held for investment category. In accordance with SFAS No. 65, *Accounting for Certain Mortgage Banking Activities*, the transfer was completed at the lower of cost or fair market value. Net deferred loan fees in the amount of $784,208 related to the transferred loan portfolio had previously been deferred without amortization. At the date of the transfer, the Association initiated amortization of the net deferred loan fees related to the transferred portfolio using the remaining maturity of the loans. Amortization of net deferred loan fees related to the transferred portfolio from April 1, 2008, through September 30, 2008, was $14,446.

At September 30, 2007, the fair market value of loans held for sale was estimated using discount rates that market participants would apply to the expected future cash flows. The weighted-average high discount rate applied to the expected future cash flows was 8.181%. The weighted-average low discount rate applied to the expected future cash flows was 7.103%. The range of potential unrealized losses, after applying the estimated discount rates of 8.181% and 7.103% to loans held for sale as of September 30, 2007, was from $(3,957,741) to $0, respectively. Loans held for sale of $62,131,922 at cost, with no valuation allowance, were recorded at the lower of cost or market as of September 30, 2007. There were no loans held for sale at September 30, 2008.

At September 30, 2008, the Association has one loan that is in the process of foreclosure. The outstanding principal balance on the loan is $459,864. The loan was originated under the agreement with the WSHFC as disclosed in Note 1. In the event of default of loans made by the Association with funds borrowed under this revolving line of credit, the Association has no liability or any other obligations under the agreement. The WSHFC, 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. The loan in foreclosure meets the definition of impaired as defined by SFAS No.

Note 4 - Loans Receivable (continued)

114, *Accounting by Creditors for Impairment of a Loan*, as amended (SFAS No. 114), in terms of its performance, and there were no other impaired loans at September 30, 2008. No specific reserve was recorded on this loan because the Association would either assign the loan to WSHFC or would not be required to repay the related funds borrowed under the related line of credit. The average balance outstanding of this impaired loan during the year was $463,437. There were no loans that met the definition of impaired at or during the year ended September 30, 2007. There were no commitments to lend additional funds on the impaired loan at September 30, 2008. Interest income recognized on this impaired loan was not material.

There was one nonaccrual loan at September 30, 2008, as described above. There were no nonaccrual loans at September 30, 2007. There were no loans past due more than 90 days and still accruing interest at September 30, 2008 and 2007.

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 $51,174,378 and $49,177,587 were outstanding at September 30, 2008 and 2007, respectively, and $6,936,065 was approved to be funded for loan commitments (Note 8) as of September 30, 2008. 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, 2008 and 2007, the outstanding amounts were $12,729,075 and $10,594,267, respectively, and $2,605,000 was approved to be funded for loan commitments (Note 8) on the line of credit as of September 30, 2008. 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 revolving 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. As of September 30, 2008 and 2007, the outstanding amounts were $2,825,803 and $2,870,658, respectively, and $1,489,500 was approved to be funded for loan commitments (Note 8) as of September 30, 2008. 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 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
2009	$ 1,124,516
2010	1,194,527
2011	1,268,723
2012	1,347,565
2013	3,502,474
Thereafter	58,291,451
	$ 66,729,256

Notes payable - member institutions, at September 30, 2008, bear interest at rates ranging from 5.20% 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, 2008 and 2007, the outstanding amounts were $5,003,134 and $4,089,053, respectively, and $562,800 was approved to be funded for loan commitments (Note 8) as of September 30, 2008. 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
2009	$ 142,527
2010	155,893
2011	159,040
2012	158,931
2013	142,962
Thereafter	4,243,781
	$ 5,003,134

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, 2008 and 2007, new member assessments of $5,000 and $7,500, respectively, were 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, 2008, was $11,593,365, of which $11,030,565 was related to affordable housing projects and $562,800 was related to nonprofit financing. 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.

At September 30, 2007, the fair market value of the derivative interest rate lock commitments with a notional amount of $7,825,000 was estimated using discount rates that market participants would apply to the expected future cash flows. The weighted-average high discount rate applied to the interest rate lock commitments was 8.32%. The weighted-average low discount rate applied to the interest rate lock commitments was 7.24%. The range of fair market value, after applying the estimated discount rates of 8.32% and 7.24%, of the interest rate lock commitments as of September 30, 2007, was from a loss of $(621,886) to a gain of $104,497. The Association recorded zero on the statement of financial condition as of September 30, 2007, based on the range of fair market value. There were no derivative interest rate lock commitments at September 30, 2008.

Contractual future minimum rental for the Association's office lease as of September 30, 2008, are as follows:

2009	$ 74,961
2010	77,173
2011	19,481
	$ 171,615

Rental expense for the years ended September 30, 2008 and 2007, was $70,652 and $67,247, respectively, and is included in office expenses on the consolidated statement of activities.

The Association's office lease expires in December 2010.

Note 9 - Related Party Transactions

All cash and cash equivalents of the Association are on deposit with member institutions. The Company holds certificates of deposits with member institutions. Total related party interest-bearing deposits for the years ended September 30, 2008 and 2007, were $1,154,490 and $1,185,963, 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, 2008 and 2007, were $81,254 and $76,769, respectively.

During the year ended September 30, 2008, six loans with a principal balance of $5,038,303 were sold at the unpaid principal balance, plus $100 per loan, to a related party. Net deferred fees on these six loans of $77,179 were recognized as a gain on sale of loans in addition to the $100 for each of the six loans. During the year ended September 30, 2007, four loans with a principal balance of $5,134,945 were sold at the unpaid principal balance, plus $100 per loan, to a related party. Net deferred fees on these four loans of $97,197 were recognized as a gain on sale of loans in addition to the $100 for each of the four loans.

Note 10 - Employee Savings Plan

The Association has a voluntary contribution 403(b) savings plan for all employees. For the years ended September 30, 2008 and 2007, 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, 2008 and 2007, the Association had contribution expenses of $17,585 and $15,091, respectively.

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THE LAUREL VILLAGE APARTMENTS

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