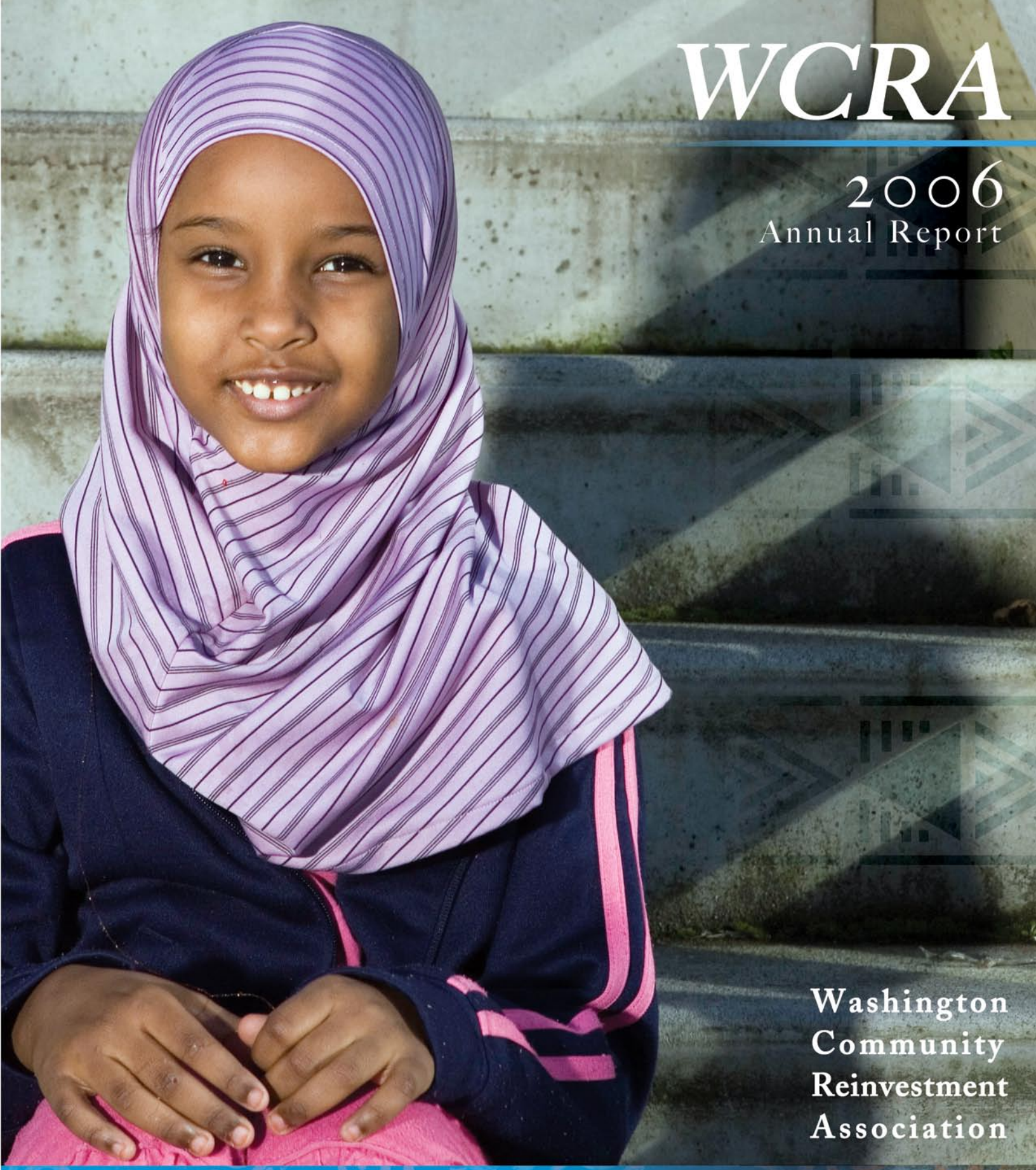
WCRA

2006 Annual Report



Washington Community Reinvestment Association

Meeting Washington's affordable housing needs through partnership


MECCA

Charleston Apartments

The Charleston Apartments are newly constructed, with project completion occurring in 2004. The seven unit project was built as the first phase of the revitalization of a Rainier Valley neighborhood with two 1-bedroom units, three 2-bedroom units and two 3-bedroom units. The units are affordable at 50% and 65% of the area median income for King County. The tenants include local families and new immigrants to the area.

SouthEast Effective Development owns and manages the property. Financing was provided by: WCRA through the Capital Plus program in partnership with the Washington State Housing Finance Commission ($400,000), City of Seattle ($515,000), Washington State DCTED ($365,895), Key Bank construction loan and an Impact Capital pre-development loan.

WCRA 2006 Board of Directors

James A. Boora, Chair	Anchor Bank
Judith Olsen, Vice Chair	Wells Fargo Bank
Judy Reed, President	WCRA
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Bill Richards	Sterling Savings Bank

WCRA 2006 Loan Committee

Chair:

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Jan Laskey	Bank of America
Guillermo Sandoval	Banner Bank
John Voth	Horizon Bank
Jay A. Coleman	Key Bank
John Schukar	Northern Trust Bank
Neil Hodge	U.S. Bank
Donald McKim	Washington Mutual Bank
Renee Logan	Wells Fargo Bank

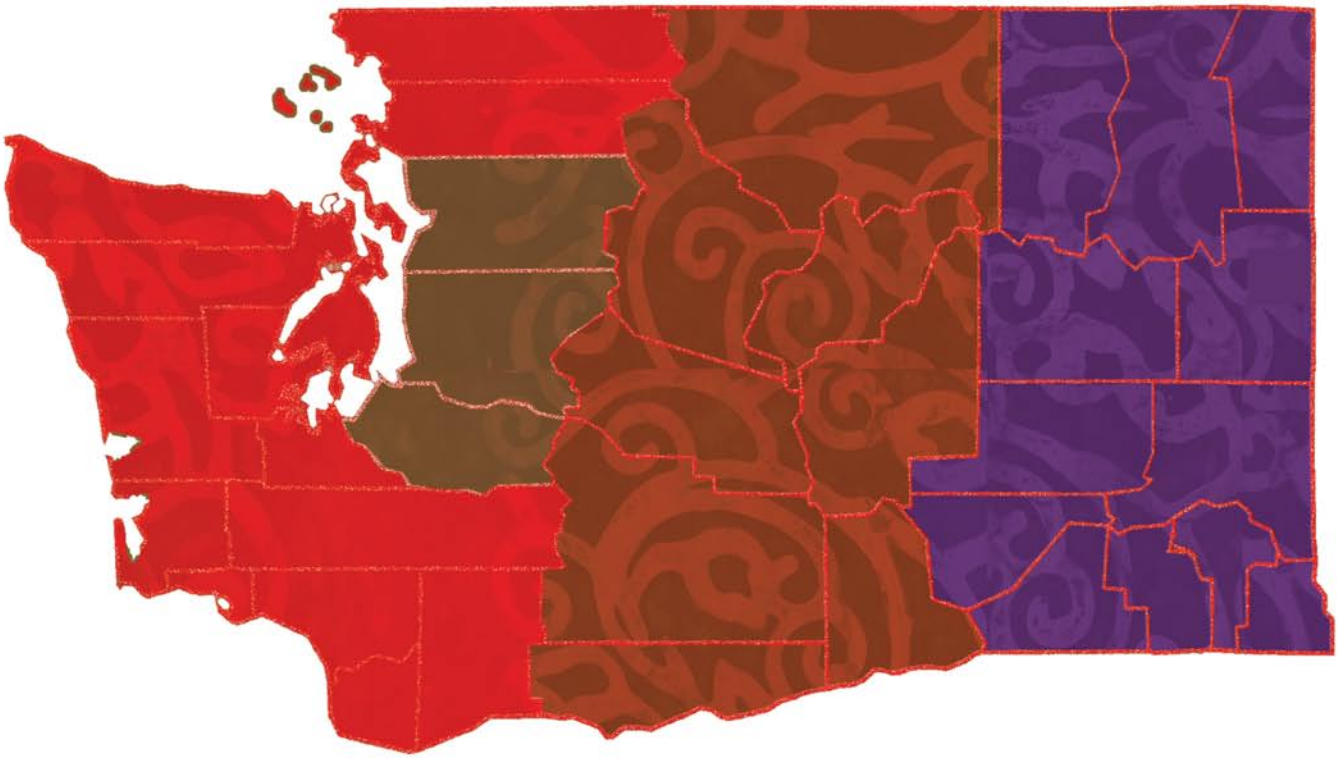
Alternates:

Christopher Moxon	Bank of America
Don Henry	U.S. Bank
Robert Morris	Washington Mutual Bank

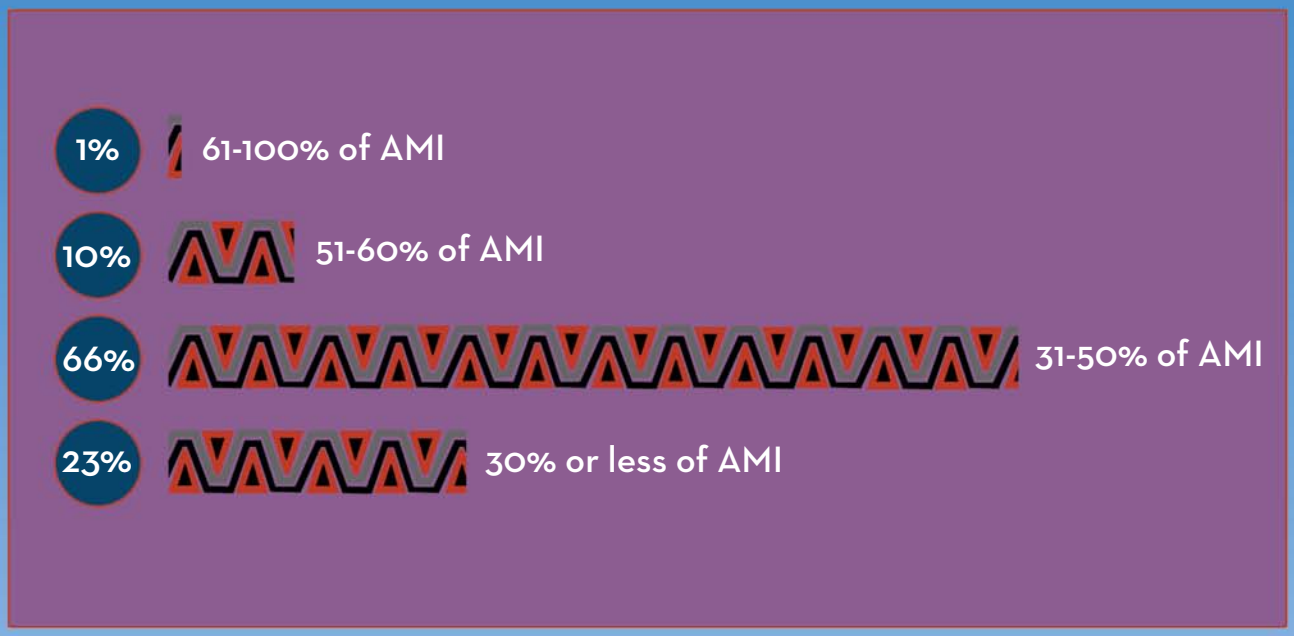
WASHINGTON COMMUNITY REINVESTMENT ASSOCIATION

2006 Membership

1st SECURITY BANK OF WASHINGTON
AMERICAN MARINE BANK
AMERICANWEST BANK
ANCHOR BANK
BANK OF AMERICA
BANK OF THE PACIFIC
BANK OF THE WEST
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 & LOAN ASSN. OF PORT ANGELES
FIRST MUTUAL BANK
FRONTIER BANK
HERITAGE BANK
HOMESTREET BANK
HORIZON BANK
KEY BANK
NORTHERN TRUST BANK
OLYMPIA FEDERAL SAVINGS & LOAN ASSN.
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 & LOAN ASSN.



Fiscal Year 2006 Loans by Income Served
(% of AMI/Special Needs)



WCRA & Subsidiary Consolidated Statement Of Financial Condition

	SEPTEMBER 30,	
	2006	2005
ASSETS		
CASH AND CASH EQUIVALENTS	$ 633.147	$ 996,340
RESTRICTED CASH	6.500	-
INVESTMENTS, at fair value	1,142,704	906,373
INTEREST RECEIVABLE	367,533	326,028
ACCOUNTS RECEIVABLE AND PREPAID EXPENSES	27,446	19,438
LOANS HELD FOR SALE, net	58,989,039	56,492,920
RATE LOCK COMMITMENTS ON LOANS	65,455	-
RATE LOCK COMMITMENTS ON NOTES PAYABLE	-	18,894
LOANS HELD FOR INVESTMENT, net	3,437,258	2,822,037
EQUIPMENT AND VEHICLES, net	6,673	16,960
Total assets	$ 64,675,755	$ 61,598,990
LIABILITIES AND UNRESTRICTED NET ASSETS		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 149,757	$ 197,138
INTEREST PAYABLE	313,303	298,872
DEFERRED RENT PAYABLE	25,281	20,780
DEFFERED REVENUE	6,500	-
CAPITAL LEASE LIABILITY	-	256
RATE LOCK COMMITMENTS ON LOANS	-	18,894
RATE LOCK COMMITMENTS ON NOTES PAYABLE	65,455	-
LOANS PAYABLE - WSHFC	3,305,554	2,705,844
NOTES PAYABLE - MEMBER INSTITUTIONS	59,644,824	57,264,405
Total liabilities	63,510,674	60,506,189
UNRESTRICTED NET ASSETS	1,165,081	1,092,801
Total	$ 64,675,755	$ 61,598,990

WCRA & Subsidiary Consolidated Statement Of Activities

	YEAR ENDED SEPTEMBER 30,	
	2006	2005
REVENUES		
Interest income	$ 4,397,779	$ 4,983,457
Gain on sale of loans	-	100,150
Loan fees	20,480	235,491
CTED construction loan review revenue	91,119	84,483
Contributions from member institutions	5,000	7,500
Gain on extinguishment of debt	-	175,088
Total revenues	$ 4,514,378	$ 5,586,169

WCRA & Subsidiary Consolidated Statement Of Cash Flows (continued)

	YEAR ENDED SEPTEMBER 30,	
	2006	2005
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan principal collected - reserve loans	2,591	2,441
Equipment purchased	(2,336)	(3,465)
Purchase of investments	(340,629)	(610,331)
Maturity of investments	104,298	933,881
Net cash from investing activities	(236,076)	322,526
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease	(256)	(2,900)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(356,693)	144,445
CASH AND CASH EQUIVALENTS		
Beginning of year	996,340	851,895
End of year	$ 639,647	$ 996,340
RECONCILIATION OF CHANGE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in unrestricted net assets	$ 72,280	$ 372,099
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities		
Depreciation	12,623	20,555
Gain on extinguishment of debt	-	(175,088)
Loss on sale of foreclosed real estate	-	172,736
Provision (benefit) for loan losses	(24,000)	(41,300)
Changes in operating assets and liabilities		
Interest receivable	(41,505)	52,961
Accounts receivable and prepaid expenses	(8,008)	13,743
Loans held for sale, net	(2,469,019)	7,179,130
WSHFC loans receivable, net	(620,912)	(1,479,499)
Accounts payable and accrued liabilities	(47,381)	93,527
Interest payable	14.431	(47,728)
Deferred rent payable	4,501	7,326
Deferred revenue	6,500	-
Notes payable - member institutions	2,380,419	(7,817,922)
Loans payable - WSHFC	599,710	1,474,279
NET CASH FROM OPERATING ACTIVITIES	$ (120,361)	$ (175,181)
NONCASH OPERATING ACTIVITIES		
Unrealized gain (loss) on lock commitments on notes payable	$ (65,455)	$ 18,894
Unrealized gain (loss) on lock commitments on loans	$ 65,455	$ (18,894)

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 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 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.

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, 2006 and 2005, the amount of funds held for customers in escrow was $3,949,082 and $3,445,317, 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.

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.

Loans originated by the Association are held for sale in the secondary market and other prospective investors, such as the member institutions. During the year ended September 30, 2005, the Association sold loans to member institutions 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, 2006 and 2005, the Association had no impaired loans, as defined by SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*. The average balance of impaired loans for the years ended September 30, 2006 and 2005 was $0 and $660,000, respectively. The impaired loan in 2005 was foreclosed in March 2005, and the collateral property was sold in April 2005. The proceeds from the sale were approximately $700,000. An additional loss of $172,736 was recorded upon sale of collateral. This loss is shown on the consolidated statement of activities as "Loss on sale of foreclosed real estate." The member institutions agreed to forgive debt in the amount of $175,088 to offset this loss. The forgiven debt is shown on the consolidated statement of activities as "Gain on extinguishment of debt." There was no interest income, paid in cash, recognized on the impaired loans during the years ended September 30, 2006 and 2005.

There were no nonaccrual loans at September 30, 2006 and 2005. There were no loans past due more than 90 days and still accruing interest at September 30, 2006 and 2005.

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 $46,724,755 and $44,701,979 was outstanding at September 30, 2006 and 2005, respectively, and $12,883,655 was approved to be funded for loan commitments (Note 8) as of September 30, 2006. 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 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 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 in order 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 $23,162,000, of which $300,000 is nonrevolving. As of September 30, 2006 and 2005, the outstanding amounts were $10,762,833 and $10,372,498, respectively, and $1,826,000 was approved to be funded for loan commitments (Note 8) on the line of credit as of September 30, 2006. Similar to the revolving line of credit above, the member institutions 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 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, 2006 and 2005, the outstanding amounts were $2,157,236 and $2,189,928, respectively, and $1,500,000 was approved to be funded for loan commitments (Note 8) as of September 30, 2006. Similar to the revolving lines of credit above, the member institutions 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 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 underling note payable.

The terms of the notes payable to member institutions 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 institutions are as follows:

YEAR ENDING SEPTEMBER 30,	AMOUNT
2007	$ 930,283
2008	989,498
2009	1,051,283
2010	1,116,964
2011	1,186,789
Thereafter	$ 54,370,007
	$ 59,644,824

Notes payable - member institutions, at September 30, 2006, bear interest at rates of 5.2% to 8.1%. 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.

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Meeting Washington's Affordable Housing Needs Through Partnership

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