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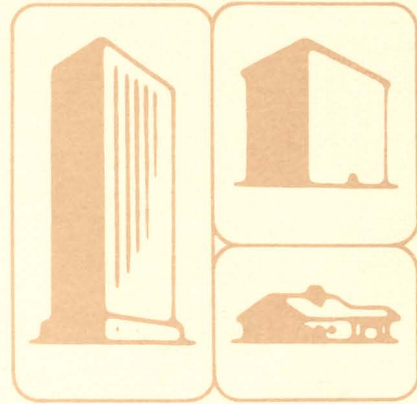
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ANNUAL REPORT



PEOPLES MORTGAGE COMPANY

OFFICERS AND DIRECTORS

JOSHUA GREEN, JR.
Chairman of the Board and Director

HAROLD A. ROGERS
President and Director

ROBERT G. PERRY
Secretary-Treasurer and Director

E. C. UNDERHILL
Senior Vice President and Director

JOSHUA GREEN, III
Vice President and Director

J. G. CAIRNS, JR.
Vice President-Manager, and Director

JOHN W. FULLER
Vice President

WILLIAM E. HART
Vice President

DEAN M. OLSON
Vice President

RICHARD J. STALLBAUM
Vice President

DONALD H. BROWN
Assistant Vice President

ROBERT R. FARQUHAR
Assistant Vice President

JOHN HENKLE
Assistant Vice President

RUSSELL JACOBSON
Assistant Vice President

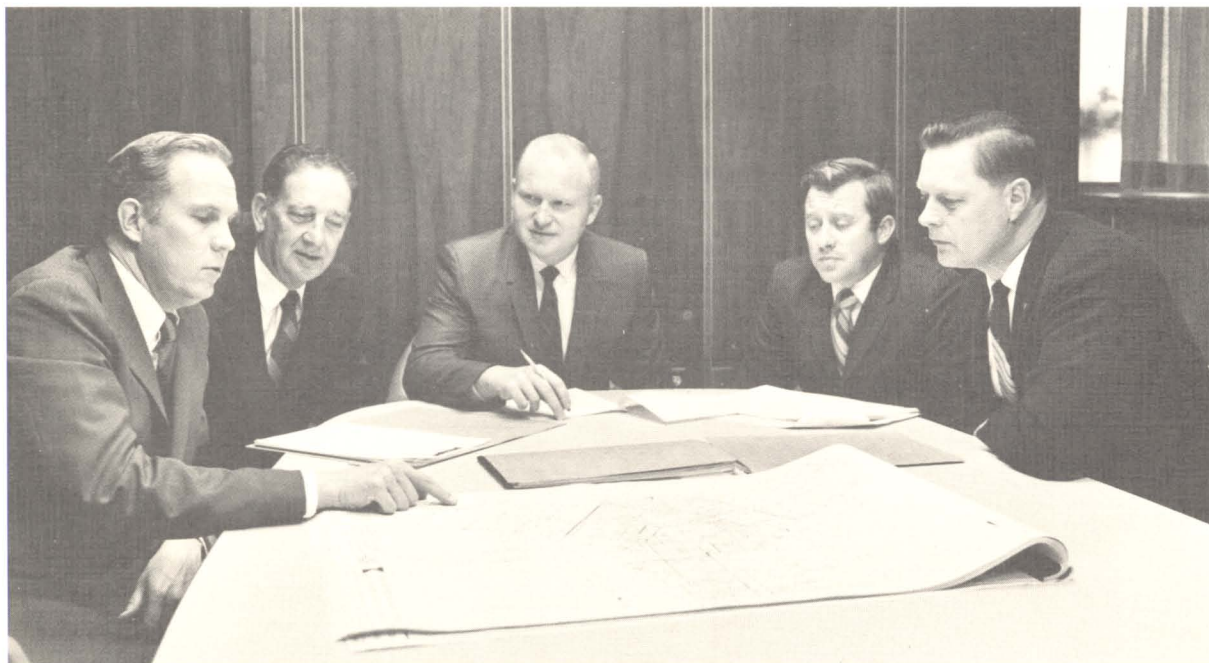
CHARLES W. MOORE
Assistant Vice President

WILLIAM H. NYBERG
Assistant Vice President

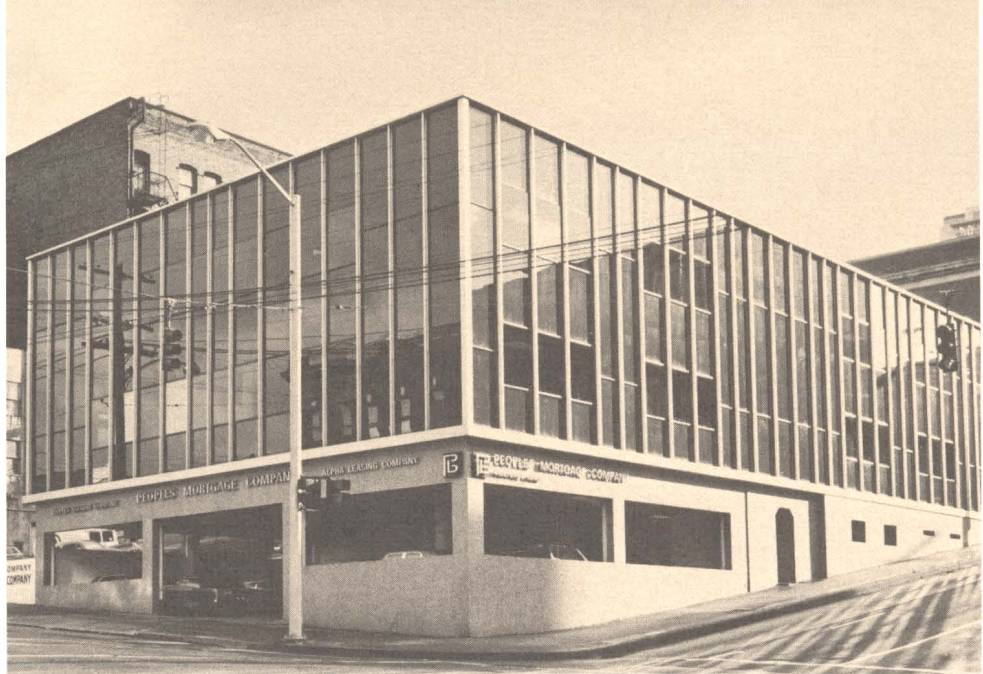
JAY C. WILLIAMS
Assistant Vice President

ZELLA G. CHRISTOPHER
Assistant Treasurer

LISA LINDNER
Assistant Treasurer



Dean M. Olson, William E. Hart, James G. Cairns, Jr., John W. Fuller, Richard J. Stallbaum



Main Office

MESSAGE TO STOCKHOLDERS

The volume of single-family mortgage loans produced in 1970 exceeded 1969's production by 5% while the overall volume of mortgage recordings in the principal area served by Peoples Mortgage Company decreased 35%.

Expanding our scope of operation, representatives have been established in Eastern and Southwestern Washington, and added to our branch offices in Burien, North Seattle, and Marysville. Special emphasis was placed on establishing working relationships with the 51 branch offices of our parent corporation, Peoples National Bank, thus allowing us the opportunity to produce mortgage loans in increasing volume from throughout the State.

On December 1 our first issue of a Government National Mortgage Association Mortgage-Backed Security was sold in the amount of \$2.5 million, marking our entry into this new method of providing attractive investments to institutional investors.

At December 31, 1970, Peoples Mortgage Company serviced \$185 million in mortgages secured by properties located in the states of Washington, Oregon and Alaska and represented 36 investors, including 7 added during the year.

During the year, due to the economic conditions facing our area, land developers and builders of single-family residences found it desirable to liquidate their investments where possible, so that the volume of residential loans derived from our single-family construction lending activities was reduced.

At year end the unsold inventory of single-family residences financed by Peoples Mortgage Company was at a comfortable level.

The 1970 volume of commercial loans increased 65% over 1969 and aggregated \$13.7 million—nearly equal to the total commercial loan production of '68 and '69 combined. A large portion of the growth resulted from our increased participation in the financing of FHA-Insured multi-family projects and several housing developments sponsored by various housing authorities of the states of Washington and Oregon.

Despite the effect of the slowdown in our economy, delinquency ratios of the portfolio we service remained consistently below regional and national averages as reported by the Mortgage Bankers Association of America.

In June of 1970 a contract was signed with the University Computing Company of Dallas, Texas, for the acquisition of a computer program adequate to satisfy current and projected future requirements. Final conversion from existing systems is expected to be completed during the first quarter of '71.

With the expansion of offices in 1969, the broadening of scope of operation in 1970, and the consolidation of accounting procedures during 1971, Peoples Mortgage Company continues to improve its service to customers requiring mortgage financing and investors seeking mortgage loan investments for their portfolios.

Vice President and Manager

PEOPLES MORTGAGE COMPANY

STATEMENT OF INCOME AND RETAINED EARNINGS

	Year Ended December 31	
income:	1970	1969
Commissions and fees from mortgage loan origination and servicing— Note 4	\$1,226,233	\$1,103,641
Interest on notes and mortgage loans	241,605	136,037
Other	31,669	56,848
	<u>1,499,507</u>	<u>1,296,526</u>
expenses:		
Salaries and bonuses	506,747	524,595
Other employee benefits—Note 8	52,036	64,650
Interest	261,887	121,318
Depreciation—Note 6	22,788	24,223
Management fee to Peoples National Bank	26,000	22,000
Other operating expenses including amortization of mortgage service acquisition costs—Note 1	545,897	417,139
	<u>1,415,355</u>	<u>1,173,925</u>
Income from operations before provision for federal income taxes and extraordinary item	84,152	122,601
Federal income taxes	34,500	51,475
Net operating income before extraordinary item	49,652	71,126
Extraordinary income	—	14,335
Net income after extraordinary item	49,652	85,461
Retained earnings, beginning of period	104,062	18,601
Dividend, \$5.00 per share	(50,000)	—
Retained earnings, end of period	<u>\$ 103,714</u>	<u>\$ 104,062</u>

See accompanying notes to financial statement

Marysville Office



PEOPLES MORTGAGE COMPANY

STATEMENT OF CHANGES IN WORKING CAPITAL

	Year Ended December 31, 1970	
Working capital was provided by:		
Net income		\$49,652
Add back charges not representing a use of working capital— depreciation and amortization	\$25,476	
Amortization of mortgage servicing premium	88,483	113,959
		<u>163,611</u>
Sale of fixed assets		103,101
		<u>266,712</u>
Working capital was used for:		
Acquisition of fixed assets	10,656	
Increase in investments	35,332	
Expenditures for other assets	33,242	
Dividends	50,000	129,230
Net increase in working capital		<u>\$137,482</u>

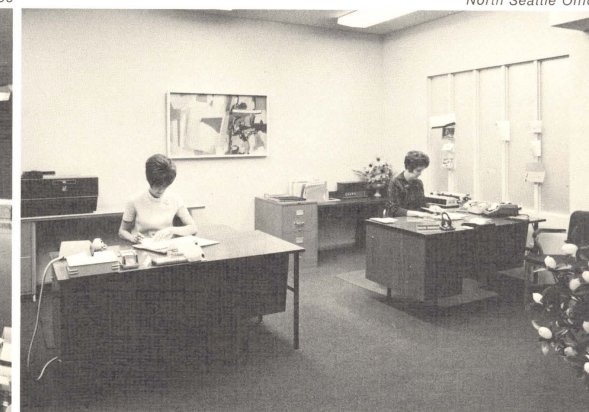
	December 31		Increase
	1970	1969	
Current assets	\$4,434,585	\$3,527,961	\$906,624
Current liabilities	4,119,877	3,350,735	769,142
Working capital and increase therein	<u>\$ 314,708</u>	<u>\$ 177,226</u>	<u>\$137,482</u>

See accompanying notes to financial statement

Burien Office



North Seattle Office



BALANCE SHEET Peoples Mortgage Company

	December 31	
	1970	1969
ASSETS		
current assets:		
Cash on hand and in banks	\$ 133,824	\$ 61,884
Cash in savings and loan associations— Note 2	14,751	14,030
First Mortgage loans in process (net of undisbursed commitments of \$5,791,869 and \$3,143,860) or held for resale (net of \$54,158 and \$144,227, discount) at December 31, 1970 and 1969, respectively—Note 3..	\$11,437,468	\$13,584,395
Accrued interest receivable	152,187	257,597
	<u>11,589,655</u>	<u>13,841,992</u>
Less—		
Participations sold to Peoples National Bank—Note 4	8,124,585	3,465,070
Real estate held for resale—Note 3	721,674	17,811
Reserve for possible loss	(22,500)	(20,000)
Notes and accounts receivable	90,508	22,815
Prepaid expenses and deposits—Note 5 ...	31,258	38,167
	<u>4,434,585</u>	<u>3,527,961</u>
trust funds:		
Cash in bank	3,135,789	2,786,938
Less - Contra liability	<u>(3,135,789)</u>	<u>(2,786,938)</u>
fixed assets, at cost, net of accumulated depreciation of \$51,230 and \$39,387, respectively—Note 6		
	117,618	232,852
investments, at cost (approximate market value \$249,000 and \$109,000 at December 31, 1970 and 1969, respectively)		
	142,998	107,666
other assets—Note 1		
	528,390	586,318
	<u>\$5,223,591</u>	<u>\$4,454,797</u>
LIABILITIES		
current liabilities:		
Notes payable—Note 7	\$3,942,200	\$3,260,020
Accrued interest payable	60,107	22,525
Accounts payable and accrued expenses	45,385	36,736
Commitment fees received.....	—	2,032
Federal income taxes	22,185	29,422
Dividends payable	50,000	—
	<u>4,119,877</u>	<u>3,350,735</u>
stockholders' equity—Note 1:		
Common stock, \$100 par value, 15,000 shares authorized; 10,000 shares issued and outstanding	\$ 1,000,000	\$ 1,000,000
Retained earnings	103,714	104,062
	<u>1,103,714</u>	<u>1,104,062</u>
commitments and contingencies—		
Notes 9 and 10	—	—
	<u>\$5,223,591</u>	<u>\$4,454,797</u>

See accompanying notes to financial statement

NOTES TO FINANCIAL STATEMENT

December 31, 1970

note 1 • corporate ownership and operations:

Peoples Mortgage Company is a wholly-owned subsidiary of Peoples National Bank of Washington. Purchases of Burwell & Morford and First Mortgage Company, nonaffiliated mortgage companies, were effected March 7, 1968 and September 5, 1969, respectively.

The acquired net assets included amounts paid for the right to service loans owned by various investors. The latter cost is being amortized over the expected average life of the acquired portfolios and has been included in the accompanying balance sheet under the caption "Other Assets" at its unamortized balance of \$495,554 and \$584,037 at December 31, 1970 and 1969, respectively.

note 2 • cash in savings and loan associations:

The company has sold various loans and notes to savings and loan associations which are secured to the extent of pledged savings accounts on deposit with the associations. It has reserved the right to repurchase the notes or contracts in the event of delinquency. The balances of the notes and contracts and the related pledged accounts as of December 31, 1970 are respectively \$93,563 and \$14,751.

note 3 • foreclosure proceedings:

At December 31, 1970, foreclosure proceedings had been initiated to seek judgment for forty mortgage loans totaling \$519,232. When judgment is obtained, the balances are transferred to Real Estate Held for Resale. No losses in excess of the reserve maintained (\$22,500) are anticipated upon disposition.

note 4 • participation agreement:

The company is party to an agreement with Peoples National Bank of Washington whereby it has agreed to sell by participation, as it requires funds, its interest in loans in process. The Bank has discretionary power with respect to loans offered for participation but once accepted its recourse is limited to its pro rata interest in the acquired loan. The mortgage company continues to manage these loans and receives a fee for this service.

note 5 • commitment fees paid or received:

The company has committed itself to deliver various amounts of loans to investors within a specified time period. It has advanced performance fees which are recovered pro rata upon delivery of these loans. At December

31, 1970, \$23,733 had not yet been realized and is subject to forfeiture in the event the required loans are not delivered.

note 6 • depreciation:

The company provides for depreciation of fixed assets over their estimated useful lives as follows:

	Method	Years
Furniture and fixtures	Declining-balance	6-10
Automobiles	Declining-balance	3
Leasehold improvements	Straight-line	5-17

Depreciation of \$22,788 and \$24,223 has been provided for the years ended December 31, 1970 and 1969, respectively.

note 7 • notes payable:

Notes payable at December 31, 1970 were comprised of Commercial Paper, generally payable within 90 days, with varying rates of interest. All notes are secured by a letter of credit and guaranteed by Peoples National Bank.

note 8 • profit-sharing:

Peoples Mortgage Company maintains a profit-sharing plan, whereby annual contributions are made to the fund trustee based upon net operating income of the company before federal income taxes. Contributions for the years ended December 31, 1970 and 1969 were \$5,000 and \$6,168, respectively.

note 9 • lease and contract commitments:

The company is party to various leases for office facilities, the major one of which requires monthly rentals of \$2,400 plus annual property taxes and insurance through April 1985.

note 10 • contingencies:

On October 30, 1970, a judgment of \$23,068 was awarded against the company in the King County Superior Court as a result of litigation concerning work performed by a contractor on property in foreclosure. The judgment is being appealed to the Washington State Court of Appeals.

In the opinion of its counsel, the company will prevail in its appeal.

AUDITOR'S OPINION

The Board of Directors
Peoples Mortgage Company

January 8, 1971
Seattle, Wash.

We have examined the balance sheet of Peoples Mortgage Company as of December 31, 1970 and the related statements of income and retained earnings and changes in working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements examined by us present fairly the financial position of Peoples Mortgage Company at December 31, 1970 and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.

INVESTORS REPRESENTED BY PEOPLES MORTGAGE COMPANY

Bankers Life Company
Buffalo Savings Bank
The Canada Life Assurance Company
Carpenters Trust of Western Washington
Central Savings Bank in the City of New York
Columbia Savings and Loan Association
Country Life Insurance Company
Emigrant Savings Bank
Federal National Mortgage Association
First Federal Savings and Loan Association of Great Falls
First Federal Savings and Loan Association of Port Jervis
First Federal Savings and Loan Association of Wisconsin
Government National Mortgage Association
The Great-West Life Assurance Company
Institutional Securities Corporation
Investors Diversified Services, Inc.
Kansas City Life Insurance Company
Mid-Jersey Savings and Loan Association
The Minnesota Mutual Life Insurance Company
National Life Insurance Company of Vermont
Peoples National Bank of Washington
Provident Mutual Life Insurance Company of Philadelphia
Rochester Savings Bank
Schenectady Savings Bank
South Shore Federal Savings and Loan Association
State Farm Life Insurance Company
State Farm Life and Accident Assurance Company
United Benefit Life Insurance Company
United States Savings Bank of Newark
Washington State Teachers' Retirement System

THROUGH PARENT CORPORATION

Arlington Heights Federal Savings and Loan Association
Portland Federal Savings and Loan Association
Provident Life Insurance Company of Bismarck
Safeco Life Insurance Company
Washington State Teachers' Retirement System
Wells Fargo Bank

PEOPLES MORTGAGE COMPANY

A WHOLLY OWNED SUBSIDIARY OF

PEOPLES NATIONAL BANK

Main Office

1101 Pike Street, Seattle, Washington 98101

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