

FEB 7 1972

SEATTLE PUBLIC LIBRARY
Business & Economics
REFERENCE COPY

ANNUAL REPORT



PEOPLES MORTGAGE COMPANY

1971 ANNUAL REPORT

PEOPLES MORTGAGE COMPANY

A wholly-owned subsidiary of

PEOPLES NATIONAL BANK

MAIN OFFICE

1101 Pike Street, Seattle, Washington 98101
(206) 344-4500

BRANCH OFFICES

NORTH SEATTLE

P. O. Box 7036
1110 N. 175th, Seattle, Washington 98133
(206) 546-2491

RENTON

Suite 117, Evergreen Building
15 South Grady Way, Renton, Washington 98055
(206) 271-1300

TACOMA

2317 Pacific Ave., Tacoma, Washington 98402
Toll Free VE 8-0131
(206) 383-2445

VANCOUVER

P. O. Box 204
308 E. Mill Plain Boulevard, Vancouver, Washington 98660
(206) 696-4361

KENNEWICK

117 Vista Way, Kennewick, Washington 99336
(509) 783-8178



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.
Senior Vice President and Director

DEAN M. OLSON
Senior Vice President and Manager

JOHN W. FULLER
Senior Vice President

WILLIAM E. HART
Vice President

RICHARD J. STALLBAUM
Vice President

DAVID E. THATCHER
Vice President

DAN L. CARLO
Assistant Vice President

ROBERT R. FARQUHAR
Assistant Vice President

JOHN G. HENKLE
Assistant Vice President

RUSSELL A. JACOBSON
Assistant Vice President

CHARLES W. MOORE
Assistant Vice President

MURIEL H. NELSON
Assistant Vice President

ROGER J. O'CONNELL
Assistant Vice President

JAY C. WILLIAMS
Assistant Vice President

ZELLA G. CHRISTOPHER
Assistant Treasurer

BRANCH MANAGERS

GORDON W. SCHLICKE
Assistant Vice President,
Branch Supervision

W. H. NYBERG
Assistant Vice President
and Manager, Vancouver

VANCE BARTLESON
Assistant Vice President
and Manager, Kennewick

C. GORDON GRAY
Manager, Tacoma

STANLEY I. HILL
Manager, North Seattle

WILLIAM STRUCHEN
Manager, Renton



Main Office

Message to Stockholders:

For the third consecutive year the volume of new single-family mortgage loans exceeded that of the previous year; 1971's production surpassed that of 1970 by 54%.

Early in 1971 a branch office was established in Vancouver, Washington; by mid-year additional branches were operating in Renton and Tacoma, followed in December by the opening of our sixth branch office in Kennewick, Washington. These new offices already have contributed substantially to our production of both single-family residential loans and commercial loans.

During the year we continued an effort begun in 1970 by issuing \$10 million of Government National Mortgage Association mortgage-backed securites. Through these issues, as well as with direct placement of both residential and commercial loans, we were able to establish servicing relationships with 17 additional investors.

A substantial increase in commercial financing was achieved during 1971 with continued emphasis placed on FHA-insured multi-family loans. Conventional commercial loan activity during the year included office buildings, shopping centers, warehouses, industrial buildings and apartments throughout the Pacific Northwest, as well as Alaska, Hawaii and Massachusetts. Our total commercial loan production for 1971 of over \$19.5 million represented a 42% increase over the previous year.

As of December 31, 1971, Peoples Mortgage Company serviced \$215 million in mortgage loans and represented 53 investors, 14 of which were acquired as a result of the GNMA Mortgage-Backed Securities issues.

In March, 1971, computer program conversion of serviced mortgage loan accounting and corporate accounting was initiated. During the year considerable effort was expended working with the University Computing Company of Dallas, Texas, towards the development of a construction loan accounting and inventory control computer program. This new program will be operational during the first quarter of 1972, at which time all accounting records will be maintained by the use of an IBM 360 Model 40 computer.

The expansion of our offices in the last three years and the continued broadening of our scope of operations in 1971 have boosted our firm to the 96th largest mortgage company in the United States. This growth, together with the recent conversion to computer accounting, enables us to better serve customers requiring innovative mortgage financing, and satisfy our investors' growing needs for mortgage investments.



SENIOR VICE PRESIDENT AND MANAGER

Some of our
1971
MORTGAGE
LOANS

A demonstration of

- ABILITY
- INNOVATION
- DIVERSIFICATION



Warehouse, Vancouver, Washington



Apartment, Omak, Washington



Apartment, Longview, Washington



Apartment, Sedro Woolley, Washington



Restaurant, Tigard, Oregon



Apartment, Seattle, Washington



Dental Clinic, Bellevue, Washington



Office, Boston, Massachusetts



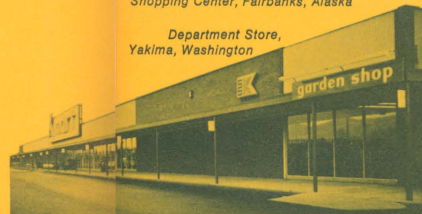
Shopping Center, Fairbanks, Alaska



Office, Bellevue, Washington



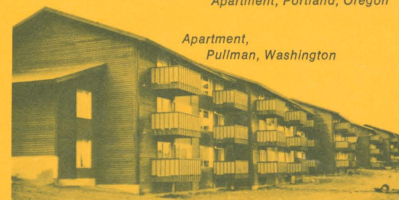
Apartment, Portland, Oregon



Department Store, Yakima, Washington



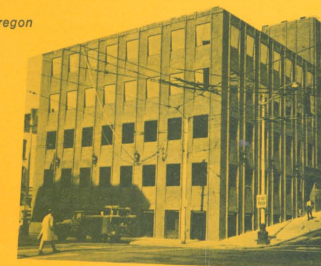
Apartment, Portland, Oregon



Apartment, Pullman, Washington



Shopping Center, Tigard, Oregon



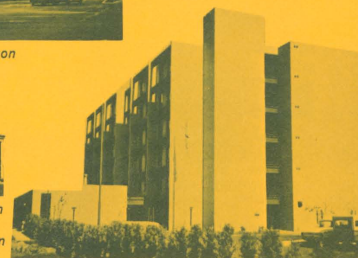
Office, Seattle, Washington



Shopping Center, Honolulu, Hawaii



Restaurant, Bellevue, Washington



Apartment, Auburn, Washington



Office and Warehouse, Bellevue, Washington



Office, Renton, Washington



Town Houses, Vancouver, Washington



Steel Fabrication Plant, Seattle, Washington

OFFICERS



J. G. CAIRNS, JR.
Senior Vice President
and Director



DEAN M. OLSON
Senior Vice President
and Manager



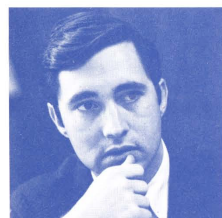
JOHN W. FULLER
Senior Vice President
and Production Manager



WILLIAM E. HART
Vice President
Residential Construction
Manager



RICHARD J. STALLBAUM
Vice President
Servicing Manager



DAVID E. THATCHER
Vice President
Commercial Lending
Manager



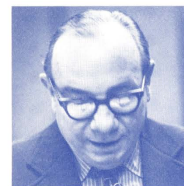
ZELLA G. CHRISTOPHER
Assistant Treasurer
Accounting



JOHN G. HENKLE
Assistant Vice President
Commercial Lending



DAN L. CARLO
Assistant Vice President
Conventional Loan
Processing



CHARLES W. MOORE
Assistant Vice President
Chief Appraiser



WILLIAM H. NYBERG
Assistant Vice President
Manager Vancouver Branch



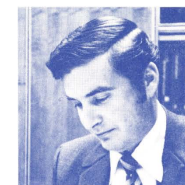
VANCE BARTLESON
Assistant Vice President
Manager Kennewick Branch



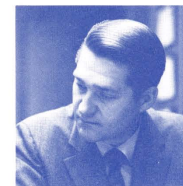
MURIEL H. NELSON
Assistant Vice President
Computer Services
Coordinator



JAY C. WILLIAMS
Assistant Vice President
Comptroller



ROBERT R. FARQUHAR
Assistant Vice President
Commercial Lending



RUSSELL A. JACOBSON
Assistant Vice President
Staff Appraiser



ROGER J. O'CONNELL
Assistant Vice President
Commercial Lending



GORDON W. SCHLICKE
Assistant Vice President
Branch Supervision

From the Washington Mortgage Bankers Newsletter, Fall, 1971:

Washington's real estate market ranks third in the United States, topping both California and Texas, according to a recent study by the National Real Estate Exchange. The state's real estate market was ranked second only to Hawaii and Florida.

In arriving at these conclusions, the exchange used the twin criteria of stability and growth.

STATEMENT OF INCOME AND RETAINED EARNINGS

	Year Ended December 31	
	1971	1970
income:		
Commissions and fees from mortgage loan origination and servicing—Note 4	\$1,660,784	\$1,226,233
Interest on notes and mortgage loans	203,639	241,605
Other	94,546	31,669
	<u>1,958,969</u>	<u>1,499,507</u>
expenses:		
Salaries and bonuses	668,826	506,747
Other employee benefits—Note 7	74,680	52,036
Interest	181,789	261,887
Depreciation—Note 5	22,962	22,788
Management fee to Peoples National Bank	24,000	26,000
Other operating expenses including amortization of mortgage service acquisition costs — Note 1	836,220	545,897
	<u>1,808,477</u>	<u>1,415,355</u>
Income from operations before provision for federal income taxes ..	150,492	84,152
Provision for federal income taxes	58,000	34,500
Net operating income	<u>92,492</u>	<u>49,652</u>
Retained earnings, beginning of year	103,714	104,062
Dividends, \$13.90 and \$5.00 per share	(139,000)	(50,000)
Retained earnings, end of year	<u>\$ 57,206</u>	<u>\$ 103,714</u>

See accompanying notes to financial statements

BALANCE SHEET Peoples Mortgage Company

	Year Ended December 31		
	1971		1970
ASSETS			
current assets:			
Cash on hand and in banks.....	\$ 66,632		\$ 133,824
Cash in savings and loan associations— Note 2	12,166		14,751
First Mortgage loans in process (net of un- disbursed commitments of \$6,059,941 and \$5,791,869) or held for resale (net of \$484,- 338 and \$54,158 discount) at December 31, 1971 and 1970 respectively—Note 3..	\$19,309,226		\$11,437,468
Accrued interest receivable	193,806		152,187
	<u>19,503,032</u>		<u>11,589,655</u>
Less—			
Participations sold to Peoples National Bank—Note 4	14,707,988	4,795,044	8,124,585
Real estate held for resale		362,565	721,674
Reserve for possible loss		(20,000)	(22,500)
Notes and accounts receivable.....		112,736	90,508
Prepaid expenses and deposits		65,885	31,258
		<u>5,395,028</u>	<u>4,434,585</u>
trust funds:			
Cash in bank	3,639,347		3,135,789
Less - Contra liability	<u>(3,639,347)</u>		<u>(3,135,789)</u>
fixed assets , at cost, net of accumulated depreciation of \$71,497 and \$51,230, re- spectively—Note 5	142,490		117,618
investments , at cost (approximate market value \$305,000 and \$249,000 at December 31, 1971 and 1970, respectively)	112,367		142,998
other assets —Note 1.....	496,161		528,390
	<u>\$6,146,046</u>		<u>\$5,223,591</u>
LIABILITIES			
current liabilities:			
Notes payable—Note 6	\$4,882,503		\$3,942,200
Accrued interest payable	71,455		60,107
Accounts payable and accrued expenses	76,775		45,385
Commitment fees received.....	13,143		—
Federal income taxes.....	44,964		22,185
Dividends payable	—		50,000
	<u>5,088,840</u>		<u>4,119,877</u>
stockholders equity —Note 1:			
Common stock, \$100 par value, 15,000 shares authorized; 10,000 shares is- sued and outstanding.....	\$ 1,000,000		\$ 1,000,000
Retained earnings	57,206	1,057,206	103,714
commitments and contingencies — Note 8			—
	<u>\$6,146,046</u>		<u>\$5,223,591</u>

See accompanying notes to financial statements

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31	
	1971	1970
Financial resources were provided by:		
Net income	\$ 92,492	\$ 49,652
Add back charges not representing a use of financial resources—		
Depreciation and amortization	\$ 26,342	\$25,476
Amortization of mortgage servicing premium	89,436	115,778
	208,270	163,611
Sale of fixed assets	—	103,101
Sale of investments	39,210	—
	247,480	266,712
Financial resources were used for:		
Acquisition of furniture and leasehold improvements	47,835	10,656
Additions to other assets	60,586	33,242
Additions to investments	8,579	35,332
Dividends	139,000	50,000
	256,000	129,230
Net increase (decrease) in working capital .	\$ (8,520)	\$ 137,482
Analysis of changes in working capital:		
Increase (decrease) in current assets—		
Cash on hand and in banks and savings and loan associations	\$ (69,777)	\$ 72,661
First mortgage loans in process	7,871,758	(2,146,927)
Accrued interest receivable	41,619	(105,410)
Participations sold to Peoples National Bank	(6,583,403)	2,324,153
Real estate held for resale	(359,109)	703,863
Reserve for possible losses	2,500	(2,500)
Notes and accounts receivable	22,228	67,693
Prepaid expenses and deposits	34,627	(6,909)
	960,443	906,624
(Increase) decrease in current liabilities—		
Notes payable	(940,303)	(682,180)
Accrued interest payable	(11,348)	(37,582)
Accounts payable and accrued expenses	(31,390)	(8,649)
Commitment fees received	(13,143)	2,032
Federal income taxes	(22,779)	7,237
Dividends payable	50,000	(50,000)
	(968,963)	(769,142)
	\$ (8,520)	\$ 137,482

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1971

note 1 • corporate ownership and operations:

Peoples Mortgage Company is a wholly-owned subsidiary of Peoples National Bank of Washington.

The Company has acquired nonaffiliated mortgage companies and the right to service loan portfolios. The cost of the right to service loan portfolios acquired is being amortized over the expected average life of the portfolios. The unamortized balances of \$406,118 and \$495,554 at December 31, 1971 and 1970, respectively, have been included in the accompanying balance sheet under the caption "Other Assets."

In 1971, maintenance of the Company's accounting and servicing records was transferred from a computer service bureau to its parent company's computer. In this connection, "Other Operating Expenses" in the accompanying financial statements include approximately \$185,000 and \$16,000 paid to the parent for the use of these computer facilities for the years ending December 31, 1971 and 1970, 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 loans and notes amounted to \$75,642 and \$93,563 at December 31, 1971 and 1970, respectively.

note 3 • foreclosure proceedings:

At December 31, 1971, foreclosure proceedings had been initiated to convey title to the Federal Housing Administration on 26 F.H.A. insured home loans totaling \$169,652. No losses are anticipated upon final disposition.

note 4 • participation agreements:

The Company is party to agreements with Peoples National Bank of Washington and other banks, whereby it has agreed to sell by participation, as it requires funds, its interest in loans in process. The banks have 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 • depreciation:

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

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

Depreciation of \$22,962 and \$22,788 has been provided for the years ended December 31, 1971 and 1970, respectively.

note 6 • notes payable:

Notes payable are comprised of:

	<u>December 31</u>	
	<u>1971</u>	<u>1970</u>
Peoples National Bank, payable on demand, bearing interest at 6% per annum	\$2,000,000	\$ —
Commercial Paper, generally payable within 90 days, at rates varying from 5% to 6¼% per annum ..	2,882,503	3,942,200
	<u>\$4,882,503</u>	<u>\$3,942,200</u>

The above Commercial Paper is secured by letters of credit and guaranteed by Peoples National Bank of Washington.

note 7 • 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 were \$10,205 and \$5,000 for the years ended December 31, 1971 and 1970, respectively.

note 8 • 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 10, 1972
Seattle, Wash.

We have examined the balance sheets of Peoples Mortgage Company as of December 31, 1971 and 1970, the related statements of income and retained earnings and the statements of changes in financial position for the years then ended. Our examinations were 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 financial statements examined by us present fairly the financial position of Peoples Mortgage Company at December 31, 1971 and 1970, and the results of its operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.

PRICE WATERHOUSE & CO.

Investors represented by PEOPLES MORTGAGE COMPANY

Bankers Life Company
The Bank of Bloomfield*
Buckeye Federal Savings & Loan Association*
Buffalo Savings Bank
The Canada Life Assurance Company
Charleroi Federal Savings & Loan Association*
Carpenters Trust of Western Washington
Central Savings Bank in the City of New York
Columbia Savings and Loan Association*
Country Life Insurance Company
Ellwood City Federal Savings & Loan Association*
Federal National Mortgage Association
First Federal Savings & Loan Association*
First Federal Savings & Loan Association of Lancaster, South Carolina*
First Federal Savings and Loan Association of Great Falls
First Federal Savings and Loan Association of Port Jervis
First Federal Savings & Loan Association of Washington*
First Federal Savings and Loan Association of Wisconsin*
Franklin Federal Savings & Loan Association*
Government National Mortgage Association
The Great-West Life Assurance Company
Institutional Securities Corporation
Intercity National Bank of Bradenton*
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
Security Federal Savings & Loan Association of Huntsville*
South Shore Federal Savings and Loan Association*
State Farm Life and Accident Assurance Company
State Farm Life Insurance Company
Teachers State Bank
Telco Credit Union*
United Benefit Life Insurance Company
United Savings & Loan Association*
United States Savings Bank of Newark
Westchester Savings & Loan Association*

THROUGH PARENT CORPORATION

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

**Purchasers of GNMA mortgage backed securities*