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ANNUAL REPORT/1969

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PEOPLES MORTGAGE COMPANY



PEOPLES MORTGAGE COMPANY

A WHOLLY OWNED SUBSIDIARY OF

PEOPLES NATIONAL BANK

Main Office

1101 Pike Street, Seattle, Washington 98101

(206) 344-4500

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 and Manager

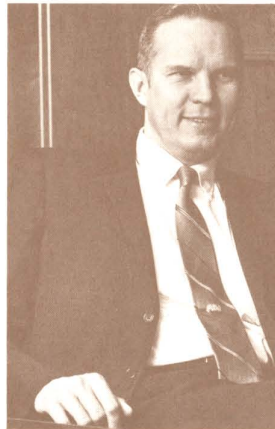
JOHN W. FULLER, Vice President

KEITH R. GREEN, Vice President

DEAN M. OLSON, Vice President



J. G. CAIRNS, JR.



DEAN M. OLSON



JOHN W. FULLER



KEITH R. GREEN

ROBERT R. FARQUHAR, Assistant Vice President

WILLIAM HART, Assistant Vice President

RUSSELL A. JACOBSON, Assistant Vice President

CHARLES W. MOORE, Assistant Vice President

WILLIAM H. NYBERG, Assistant Vice President

RICHARD STALLBAUM, Assistant Vice President

RICHARD A. WALKER, Assistant Vice President

JAY WILLIAMS, Assistant Vice President

JUDY CHASE, Assistant Treasurer

ZELLA G. CHRISTOPHER, Assistant Treasurer

JOHN G. HENKLE, Assistant Treasurer

LISA L. LINDNER, Assistant Treasurer

Message to Stockholders

Dear Stockholders:

More than \$8.5 million in commercial loans were closed by Peoples Mortgage Company in 1969, representing a 6.25 percent increase in commercial production over the 1968 level. These loans were secured by a variety of properties including apartments, industrial developments, a church, a college dormitory and a shopping center.

In the single family housing mortgage market, the company maintained 1968 production levels and financed the development of 422 FHA-approved single family lots and 450 single family homes. This was accomplished in the face of a 32 percent decline in housing production in the primary tri-county region served by Peoples Mortgage Company.

Significant expansion occurred with the acquisition of First Mortgage Company September 5. First Mortgage, formed in 1945, had a net operating loss at the acquisition date of \$70,451.05 which was absorbed by December 30 when First Mortgage Company was liquidated and merged into Peoples.

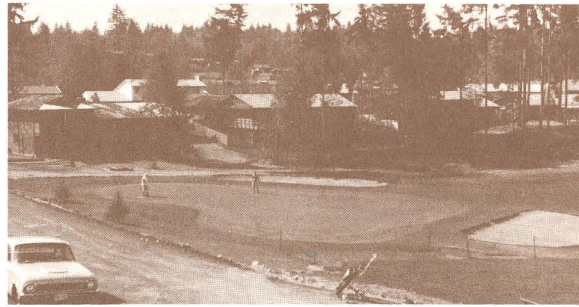
A third branch was opened in Marysville in April to secure the production of permanent loans arising from the development of FHA tracts in Snohomish County. The North Seattle branch expanded into larger, ground floor office space in July.

Growth continued at the Main Office during the year with the expansion of the new executive offices and meeting rooms into the third floor of the building. We now occupy the entire 12,000 square feet of space in the building. A new vault was added to house insurance, accounting and loan files representing the inventoried loans as well as loans serviced for all 30 investors of Peoples Mortgage Company.

A combined servicing portfolio of \$175 million plus the company's larger physical facilities have prepared Peoples Mortgage Company for continued expansion and provided the capabilities for serving the rapidly growing Pacific Northwest in the period ahead.



Vice President and Manager



Residential

Apartments



Commercial



Retail Stores



Country Clubs

Motels



Warehouses



Medical Clinics



*Government
Facilities*

Statement of Income and Retained Earnings (Note 1)

	1969	1968
INCOME:		
Commissions and fees from mortgage loan origination and servicing - Notes 1 and 4	\$1,103,641	\$736,837
Interest on notes and mortgage loans	136,037	27,035
Other	56,848	62,169
	<u>1,296,526</u>	<u>826,041</u>
EXPENSES:		
Salaries, bonuses and employee benefits - Note 7	589,245	391,531
Interest	121,318	22,197
Depreciation	24,223	13,923
Management fee to Peoples National Bank	22,000	23,029
Other operating expenses including amortization of mortgage service acquisition costs - Note 1	417,139	286,834
	<u>1,173,925</u>	<u>737,514</u>
Income from operations before provision for federal income taxes and extraordinary item	122,601	88,527
Federal income taxes	51,475	40,000
Net operating income before extraordinary item	71,126	48,527
Extraordinary income - Note 1	14,335	—
Net income after extraordinary item	85,461	48,527
Retained earnings, beginning of period - Note 1	18,601	74
Dividend paid, \$3.75 per share in 1968	—	30,000
Retained earnings, end of period	<u>\$ 104,062</u>	<u>\$ 18,601</u>
Net income per average share of common stock outstanding:		
Before extraordinary item	\$8.25	\$6.09
Extraordinary item	1.66	—
	<u>\$9.91</u>	<u>\$6.09</u>

See accompanying notes to financial statements

BALANCE SHEET Peoples Mortgage Company



	1969	December 31	1968
ASSETS			
CURRENT ASSETS:			
Cash on hand and in banks	\$ 61,884		\$ 307,807
Cash in savings and loan associations - Note 2	14,030		13,247
First Mortgage loans in process (net of undisbursed commitments of \$3,143,860 and \$5,316,467) or held for resale (net of \$144,227 and \$253,465, discount) at December 31, 1969 and 1968, respectively - Note 3	\$13,584,395		\$9,309,833
Accrued interest receivable	257,597		82,407
	<u>13,841,992</u>		<u>9,392,240</u>
Less -			
Participations sold to Peoples National Bank - Note 4	10,448,738		9,148,281
Reserve for possible collection loss	20,000	3,373,254	10,000
Real estate held for resale		17,811	38,792
Notes and accounts receivable		22,815	36,289
Prepaid expenses and deposits - Note 6		38,167	91,842
		<u>3,527,961</u>	<u>721,936</u>
TRUST FUNDS:			
Cash in bank	2,786,938		1,798,166
Less - Contra liability	(2,786,938)		(1,798,166)
FIXED ASSETS , at cost, net of accumulated depreciation of \$39,387 and \$16,292, respectively		232,852	158,219
INVESTMENTS , at cost which approximates market		107,666	16,727
OTHER ASSETS - Note 1		586,318	500,433
		<u>\$4,454,797</u>	<u>\$1,397,315</u>
LIABILITIES			
CURRENT LIABILITIES:			
Notes payable - Note 5	\$3,260,020		\$ 450,000
Accrued interest payable	22,525		7,827
Accounts payable and accrued expenses	36,736		39,594
Commitment fees received - Note 6	2,032		41,730
Federal income taxes	29,422		39,563
	<u>3,350,735</u>		<u>578,714</u>
STOCKHOLDERS' EQUITY - Note 1:			
Common stock, \$100 par value, 15,000 shares authorized; 10,000 issued and outstanding in 1969, 8,000 in 1968	\$ 1,000,000		\$ 800,000
Retained earnings	104,062	1,104,062	18,601
		<u>—</u>	<u>—</u>
COMMITMENTS - Note 8		<u>\$4,454,797</u>	<u>\$1,397,315</u>

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

December 31, 1969

NOTE 1 — CORPORATE OWNERSHIP AND OPERATIONS:

Peoples Mortgage Company is a wholly-owned subsidiary of Peoples National Bank of Washington. Incorporated February 11, 1967, its operations to March 6, 1968 consisted principally of rental of certain facilities to its parent bank and are excluded from the accompanying income statement. Purchases of Burwell and Morford and First Mortgage Company, nonaffiliated mortgage companies, were effected March 7, 1968 and September 5, 1969, respectively. The acquired companies have been liquidated and their assets, subject to the liabilities transferred to Peoples Mortgage Company.

The acquired net assets have been recorded at actual cost which includes an amount paid for the right to service loans owned by various investors. This 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 \$584,037 and \$499,468 at December 31, 1969 and 1968, respectively.

Operations of First Mortgage Company prior to acquisition (September 5, 1969) had resulted in losses in excess of amounts which could be offset against previously taxable income. However, under applicable tax regulations, this preacquisition loss has subsequently been realized and has been shown in the accompanying statements as extraordinary income. Additionally, certain mortgage loans acquired from First Mortgage Company at discounted amounts were sold at increased values, as required by applicable tax regulations, to Peoples Mortgage Company's parent. Income therefrom in the amount of \$17,862, has been included in the accompanying statements under the caption commissions and fees from mortgage loan origination and servicing.

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, 1969 are respectively \$95,417 and \$14,030.

NOTE 3 — FORECLOSURE PROCEEDINGS:

At December 31, 1969, foreclosure proceedings had been initiated to seek judgment for thirteen mortgage loans totaling \$171,683. No losses in excess of the reserve maintained (\$20,000) 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 — NOTES PAYABLE:

Notes payable at December 31, 1969 and 1968 are detailed as follows:

Payee	Interest rate	Maturity	December 31 1969	December 31 1968
Peoples National Bank of Washington	6%	Demand		\$ 50,000
Peoples National Bank of Washington	6%	March 3, 1969		400,000
Peoples National Bank of Washington, Trust Department	7½%	February 20, 1970	\$1,003,020	
Other lenders	6¼ to 8%	Within one year	2,257,000	
			<u>\$3,260,020</u>	<u>\$450,000</u>

All notes at December 31, 1969 are secured by a letter of credit and guaranteed by Peoples National Bank.

NOTE 6 — 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, 1969, \$34,503 had not yet been realized and is subject to forfeiture, in the event the required loans are not delivered.

The company has obtained similar fees from various contractors to insure itself of a continuing supply of loans. No significant amount of gain or loss is expected from either of these sources as a result of inability to perform.

NOTE 7 — PROFIT-SHARING PLAN:

During 1969, Peoples Mortgage Company adopted the profit-sharing plan of its parent, Peoples National Bank of Washington. Under the terms of the plan, annual contributions to the fund trustee (\$6,168 in 1969) are required, based upon net operating income of the company, before federal income taxes.

NOTE 8 — 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, annual property taxes and insurance through April 1985. It is also committed through December 1971 to the rental of computer service. Rentals under this contract are based upon the number of accounts serviced.

January 9, 1970

AUDITOR'S OPINION

The Board of Directors

Peoples Mortgage Company

We have examined the balance sheet of Peoples Mortgage Company as of December 31, 1969 and the related statement of income and retained earnings 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, 1969 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.

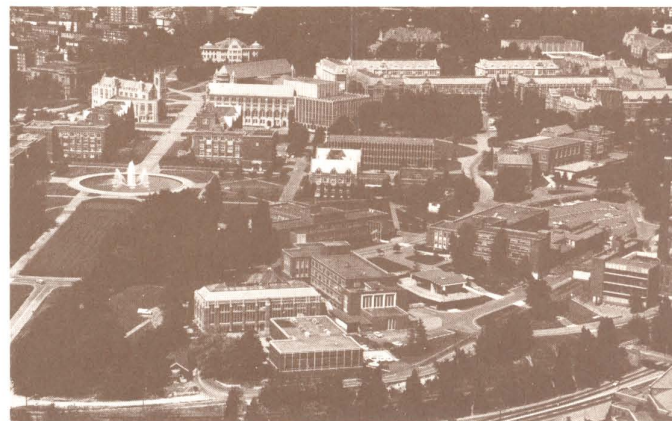
Population

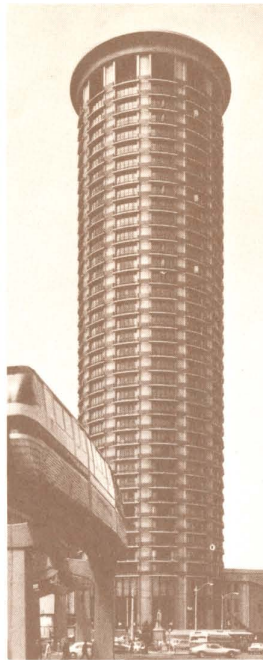
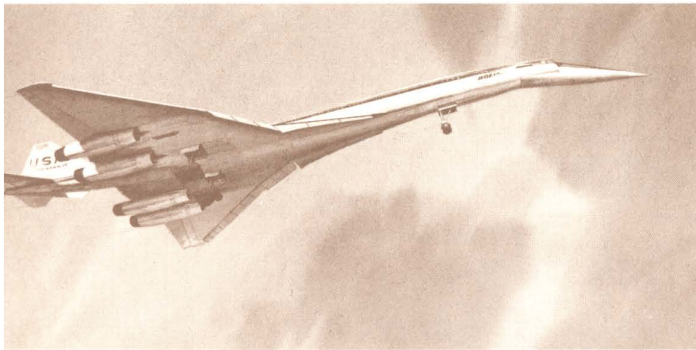
The estimated 1968 population of the State of Washington was 3,276,000 and is expected to rise beyond 4 million within the next fifteen years. Personal income in the State of Washington is among the nation's highest with average weekly wages in manufacturing ranking fifth at \$141.73 versus the U.S. average of \$122.51. On a per capita basis, personal income of Washington residents ranks eleventh in the United States with a per capita income of \$3,676.



Education

The population of the State of Washington tends to be more highly educated than that of the nation as a whole and average years of school completed by Washington residents is 12.1, compared to the 10.6 national average. There are thirty-nine institutions of higher education with an enrollment in 1968 of 153,902 students. The University of Washington is one of the first to offer a curriculum in Oceanography which has been frequently referred to as "man's newest frontier."





Aerospace

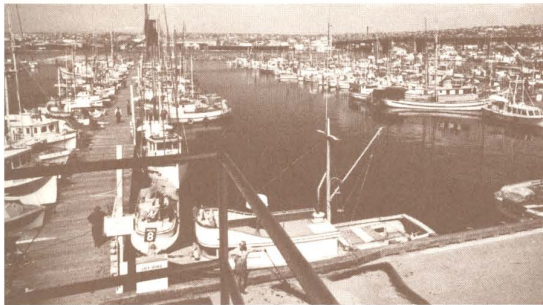
The \$85 million appropriation by Congress in late 1969 to continue development of the Supersonic Transport, coupled with certification by the FAA of the Boeing 747, assures Seattle of another decade of continued leadership in aerospace technology. The 747 goes into commercial service early in 1970. The already large backlog of orders is expected to increase as the first jumbo jets prove themselves in passenger service.

Construction

Although Washington, along with the rest of the nation, saw a slackening of construction in 1969, the value of construction actually in progress for 1968 was \$1.4 billion, a figure exceeded by only eleven other states. 1969 figures are not expected to show much softening of that rate, and the postponed construction will certainly carry forward into actual building in the early '70s. The Washington Plaza Hotel, opened in 1969, is the latest showpiece of Seattle-headquartered Western International Hotels, the world's third-largest hotel chain.

Forest Industry

Washington, with 23,050,000 acres of commercial forest land, is sixth in the nation in forest acreage. Not only is local construction a heavy user of local products, but the nation's need for 26 million-plus homes in the next decade is expected to provide solid growth in this industry.



Fishing

Washington's commercial fishing fleet is one of the largest in the world. More than 1,000 boats spend the off season in the fresh water just inside the locks from Puget Sound.

Shipping

Shipping tonnage for the Port of Seattle exceeds 3 million short tons of import and export cargo, and another 3 million short tons of coast-wide shipping. Washington ranks fifth in export value of transportation equipment, and this figure is expected to rise dramatically with the opening of the oil fields on the North Slope of Alaska. Seattle is blessed with the deepest salt water port in the nation, a factor which will become increasingly significant as deeper draft vessels see wider service.

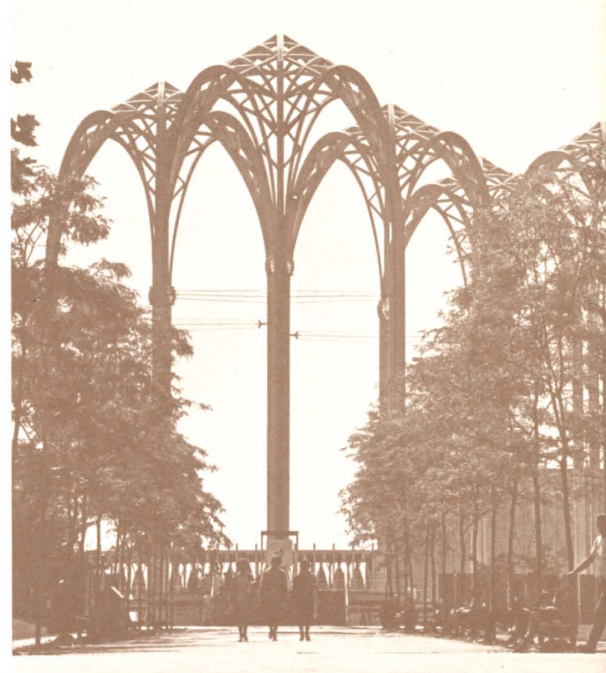
Retailing

There are approximately 30,000 retail establishments throughout the state employing approximately 150,000 workers. Growth in retailing continues to be healthy, as evidenced by South-center, a "climate-controlled" shopping center which is one of the largest in the region.



Tourism

Tourism in the State of Washington is a rapidly growing industry. It is estimated that travel expenditures will reach in excess of \$1 billion by 1980, and employment generated by these expenditures will rise to more than 64,000 people. The unique combination of mountain and winter sports, and salt water and fresh water activities make Washington a year-round vacationer's paradise.



Culture

Washington offers a wide variety of cultural opportunities. The Seattle Center and its surrounding facilities is a year-round hub of activity. All of the performing arts are actively supported by the community.



Investors Represented by Peoples Mortgage Company

Bankers Life Company
Buffalo Savings Bank
The Canada Life Assurance Company
Carpenters Trust of Western Washington
Country Life Insurance Company
The Dunellen Savings and Loan Association
Emigrant Savings Bank
Equitable Federal Savings and Loan Association of New York
Federal National Mortgage Association
First Federal Savings and Loan Association of Great Falls
Government National Mortgage Association
The Great-West Life Assurance Company
Institutional Securities Corporation
Investors Diversified Services, Inc.
Kansas City Life Insurance Company
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
State Farm Life Insurance Company
United Benefit Life Insurance Company
United States Savings Bank of Newark

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