

# **PUBLIC DISCLOSURE**

**January 22, 2002**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Valley Bank of Arizona  
2364564  
3550 N. Central Avenue, Suite 150  
Phoenix, Arizona 85012**

**Federal Reserve Bank of San Francisco  
101 Market Street  
San Francisco, California 94105**

*NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.*

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## **INSTITUTION**

**Institution's CRA Rating:** This institution is rated satisfactory.

Valley Bank of Arizona demonstrates an overall satisfactory level of performance under the Community Reinvestment Act, as measured by the small bank performance criteria. The bank maintains an adequate loan-to-deposit ratio and extends an overwhelming majority of its loans inside its assessment area. The bank's small business lending penetration in low- and moderate-income geographies is strong relative to the number of businesses in those geographies. Loans to businesses with gross annual revenues of \$1 million or less also exhibit an adequate responsiveness to community credit needs when considered in light of assessment area characteristics.

## **PERFORMANCE CONTEXT**

### **Description of Institution**

Valley Bank of Arizona (“VBA”) is a \$76 million community bank established in March 1996. The bank’s main branch is located in Phoenix, Arizona, and the only other branch is in Scottsdale, Arizona. Valley Bancorp, Inc., which is a part of the United Financial Corporation chain, is the bank’s parent company.

VBA is predominately a business lender offering a variety of commercial loan products including credit lines, receivables and inventory, equipment, term, SBA and letters of credit. Real estate loans are offered for construction and commercial purposes, with consumer loans made on an accommodation basis. The bank’s loan portfolio as of September 30, 2001, as shown in the following table, reflects the concentration in commercial credit.

<b>Loan Type</b>	<b>Dollar Amount (000s)</b>	<b>Percent of Value</b>
Commercial/Industrial and Non-Farm Non-Residential Real Estate	\$35,745	76.9%
Secured by 1-4 Family Real Estate	\$2,791	6.0%
Multifamily Real Estate	\$868	1.9%
Construction	\$4,269	9.2%
Farmland and Agriculture	\$303	0.7%
Consumer	\$2,117	4.6%
States and Political Subs in US	\$200	0.4%
Lease Financing	\$209	0.5%
Total Loans (Gross)	\$46,502	100%

Since the previous examination in June of 1998, the bank has experienced modest growth, averaging at approximately 16 percent on an annualized basis. The bank’s asset growth of 7 percent for the nine months ending 09/30/2001, noticeably shrank compared to previous years. Loan growth also shrank considerably during this time frame. This decrease in growth may be attributed to the recent economic downturn.

The bank does not have any financial constraints or legal impediments that would inhibit its ability to meet community credit needs consistent with its business strategy, size, financial resources and local economic conditions. The bank received a satisfactory rating at its previous CRA examination conducted as of June 29, 1998.

## Description of Assessment Area

The bank's assessment area is Maricopa County, Arizona in its entirety. Maricopa County is essentially the Phoenix metropolitan area. It is one of two counties, along with Pinal County, that comprises the Phoenix-Mesa Metropolitan Statistical Area. Maricopa County consists of 95 percent of the total population of the Phoenix-Mesa MSA and 60 percent of the population for the entire state of Arizona. Major cities included in the area are Phoenix, Mesa, Tempe, and Scottsdale. Based on the 1990 census data, the assessment area's 466 census tracts are broken down as follows:

Tract Income Level	Distribution of Tracts by Income Level	
	Number	Percent
Low	27	6%
Moderate	108	23%
Middle	178	38%
Upper	149	32%
Not Classified	4	1%
Assessment Area Total	466	100%

The city of Phoenix is responsible for producing approximately 78 percent of Arizona's gross domestic product.<sup>1</sup> The largest business sectors for Maricopa County and the state of Arizona are services, trade and manufacturing. Construction activities have experienced a substantial increase during recent years, but seem to be slowing as the vacancy rates rise. The county has been successful in attracting high-tech firms, which have contributed the majority share of Maricopa's manufacturing jobs. However, Phoenix's economy has been affected by the national recession, the slowdown in the high tech sector, and the decline in tourism following last year's terrorist attacks. A recent analysis found that Phoenix has gone from one of the fastest growing metropolitan areas in the nation to one of the fastest *slowing* areas.<sup>2</sup> Recently there have been significant job cuts by large area employers such as Motorola.<sup>3</sup> These job losses and the decline in income of the area's largest employer, Honeywell have played a part in the downturn in the local economy.<sup>4</sup>

The unemployment rate of the Phoenix MSA has jumped in the past six months. There has been a 2.7 percent increase in the unemployment rate of Maricopa County from December 2000 to December 2001, and forecasts predict that the rate will continue to rise in the coming year.<sup>5</sup> A community contact reported that an effect of the economic slowdown is fewer start up companies in the Phoenix area due to the tightening of credit standards. The contact also noted that the primary credit need for existing small businesses are small dollar loans, ranging from \$35,000 to \$150,000, to ease cash flow constraints.

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<sup>1</sup> Source: [www.economy.com](http://www.economy.com)

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> Source: Bureau of Labor Statistics, <http://data.bls.gov>

Within Maricopa County there are 55 financial institutions doing business. Among these, Valley Bank of Arizona holds 0.2 percent of the total deposits, ranking thirtieth by market share.<sup>6</sup> The institutions that hold a larger portion of the market include the national banks such as Bank One, Bank of America and Wells Fargo. According to one community contact, the small businesses in the area are turning to larger national banks for loans due to simpler and quicker application processes.

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<sup>6</sup> Source: FDIC/OTS Summary of Deposits

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **Scope of Examination**

To evaluate the bank's performance under the Community Reinvestment Act, its performance was reviewed based upon four of the five performance criteria. These include the following:

- The bank's loan volume in comparison to its deposits (Loan-to-Deposit Ratio)
- The bank's lending inside and outside its assessment area (Lending in Assessment Area)
- The dispersion of lending throughout the census tracts or geographic areas within the assessment area (Geographic Distribution of Loans)
- The distribution of lending to businesses of different sizes (Lending by Business Revenue)

The bank's responsiveness to consumer complaints was not evaluated because the bank has not received any CRA-related complaints.

The bank is primarily a commercial lender, therefore, small business loans were used as the basis of this evaluation. A total of 163 small business loans originated between January 1, 2000, and December 31, 2001, were considered for review. These loans were first used to determine the bank's volume of lending inside its assessment area. Only those loans extended inside the assessment area were included in the evaluation of the bank's performance with respect to the geographic distribution of loans and the distribution of lending to businesses of different revenues. By only using those loans extended inside the assessment area, examiners evaluated the bank's record of meeting the credit needs of its designated community.

### **Loan-to-Deposit Ratio**

VBA's loan-to-deposit ratio is reasonable and meets the standards for a satisfactory performance. At 74 percent, VBA's average loan-to-deposit ratio falls within the range of its local competitors and is considered adequate.

### **Lending in Assessment Area**

VBA's concentration of loans extended inside its assessment area exceeds standards for satisfactory performance. The bank extended 97 percent of its loans in number and dollar volume to borrowers within its assessment area. Overall a substantial majority of loans were extended inside the assessment area.

## Geographic Distribution of Loans

The bank's overall geographic distribution of loans throughout its assessment area exceeds the standards for a satisfactory performance. The lending patterns evidence a strong record of serving the credit needs of businesses relative to the percentage of businesses located in those geographies, the aggregate performance of large banks in the area, and the distribution of low- and moderate income geographies. The table below summarizes this information.

Census Tract Income Level	Census Tract Distribution	Small Business Distribution	VBA Loans (# of Loans)	VBA Loans (\$ Amount)	Aggregate Lending (# of Loans)	Aggregate Lending (\$ Amount)
Low	6%	5%	11%	17%	5%	9%
Moderate	23%	21%	28%	26%	18%	22%
Middle	38%	37%	25%	22%	35%	34%
Upper	32%	37%	36%	35%	42%	35%

## Lending Distribution by Business Size

The bank's level of lending to small businesses is adequate when considered in light of assessment area characteristics. Dun and Bradstreet reported that 84 percent of all businesses in the bank's assessment area have gross annual revenues of \$1 million or less. Of the small business loans originated during the sample period, 44 percent by dollar and 39 percent by number, were extended to these small businesses.

A comparison of the concentration of small businesses in the area and VBA's level of lending to small businesses seems to indicate that additional lending opportunities exist. However, VBA performed slightly better than the aggregate of other larger lenders (32 percent) and performed consistent with its small bank competitors in the area. Most importantly, however, is performance context information that the recent downturn in economic conditions has resulted in a decline in the number of start-up companies and therefore a decline in the number of small businesses in the area.

## Response to Complaints

VBA did not receive any complaints relating to its CRA performance since the previous examination. Accordingly, this performance measurement was not evaluated.

## Compliance with Fair Lending Laws and Regulations

No violations of the substantive provisions of anti-discrimination laws and regulations were identified during this examination. Additionally there was no evidence that the bank engages in any prohibitive practices.



## **GLOSSARY OF FREQUENTLY USED TERMS**

### **Area Median Income (Median Income)**

The median family income for the Metropolitan Statistical Area (MSA) if a person or geography is located in an MSA, or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

### **Assessment Area**

A geographic area which generally consists of one or more MSAs or one or more contiguous subdivisions, such as counties, cities or towns. Assessment areas also include geographies in which the bank has its main office, its branches and its deposit taking ATMs, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans (including home mortgage loans, small business loans, small farm loans, and any other loans the bank chooses, such as those consumer loans on which the bank elects to have its performance assessed).

### **Community Development**

- (1) Affordable housing (including multifamily rental housing) for low- or moderate-income individuals.
- (2) Community services targeted to low- or moderate-income individuals.
- (3) Activities that promote economic development by financing business or farms, which have, gross annual revenues of \$1 million or less or that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs.
- (4) Activities that revitalize or stabilize low- or moderate-income geographies.

### **Community Development Loan**

A loan that has as its primary purpose community development; and, except in the case of a wholesale or limited purpose bank:

- (1) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan; and
- (2) Benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

<b>Community Development Service</b>	A service that has as its primary purpose community development, is related to the provision of financial services, and has not been considered in the evaluation of the bank's retail banking services under CRA.
<b>Consumer Loans</b>	Loans to one or more individuals for household, family or other personal expenditures. A consumer loan does not include a home mortgage, small business or small farm loan. Examples of consumer loans are: Motor Vehicle Loans, Credit Card Loans, Home-Equity Loans, Secured Consumer Loans and Unsecured Consumer Loans.
<b>Census Tract</b>	Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.
<b>Family Income</b>	Includes the income of all members of a family that are age 15 and older.
<b>Families</b>	Defined by the U.S. Bureau of Census as all persons occupying a housing unit related to the householder by birth, marriage or adoption. A single person living alone or two or more unrelated individuals occupying the same household are not considered to be a family.
<b>Geographies</b>	Census tracts or numbering area blocks delineated by the U.S. Bureau of Census in the most recent decennial census.
<b>Household Income</b>	Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.
<b>Households</b>	Defined by the U.S. Bureau of Census as all persons occupying a housing unit.
<b>Housing Unit</b>	Includes a house, an apartment, a mobile home, a group of homes, or a single room that is occupied as separate living quarters.

<b>HUD Adjusted Median Income</b>	Based initially on the area median income derived from the most recent decennial census, the Department of Housing and Urban Development adjusts the figure annually for inflation.
<b>Income Level</b>	Includes low-income, moderate-income, middle-income and upper-income.
<b>Low-Income</b>	An individual income that is less than 50 percent of the HUD- adjusted median income or a census tract or block numbering area with a median family income that is less than 50% of the area median income.
<b>Median Income</b>	See Area Median Income and HUD Adjusted Median Income.
<b>Metropolitan Statistical Area (MSA)</b>	An area qualifies as an MSA if it contains a city with a population of at least 50,000 or is defined by the Bureau of the Census as an urbanized area and has a population of 50,000 or more and a total metropolitan population of 100,000.
<b>Middle-Income</b>	An individual income that is at least 80 percent and less than 120 percent of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is at least 80 and less than 120 percent of the area median income.
<b>Moderate-Income</b>	An individual income that is at least 50 percent and less than 80 percent of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is at least 50 and less than 80 percent of the area median income.
<b>Owner-Occupied Housing Unit</b>	Includes housing units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.
<b>Qualified Investment</b>	A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

<b>Real Estate Mortgage Loan</b>	Defined by the Home Mortgage Disclosure Act (HMDA) as a home purchase loan, home improvement loan or the refinancings for both. A home purchase loan is any loan secured by and made for the purpose of purchasing a dwelling. A home improvement loan is for the purpose, in whole or part, of repairing, rehabilitating, remodeling, or improving a dwelling or the real property on which it is located and is classified by the financial institution as a home improvement loan.
<b>Small Bank</b>	A bank that, as of December 31 of either of the prior two calendar years, had total assets of less than \$250 million and was independent or an affiliate of a holding company that, as of December 31 of the prior two calendar years, had total banking and thrift assets of less than \$1 billion.
<b>Small Business</b>	Businesses with gross annual revenues of \$1 million or less as defined by the Community Reinvestment Act.
<b>Small Business Loan</b>	Business purpose loans with original amounts of \$1 million or less as defined by the instructions for the Consolidated Reports of Condition and Income (CALL Report) for entry on schedule RC-C, part II "Loans to Small Businesses."
<b>Upper-Income</b>	An individual income that is 120 percent or more of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is 120 percent or more of the area median income.