

PUBLIC DISCLOSURE

December 10, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Southwest Bank of Phoenix
RSSD - 2959700
2222 East Camelback Road
Phoenix, Arizona 85016**

**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: Satisfactory

Southwest Bank of Phoenix's overall CRA performance is satisfactory. In its first year of operations, the bank has adequately addressed the credit needs of small businesses within its assessment area. Lending levels are consistent with that of a new financial institution and lending patterns are adequate when consideration is given to the constraints faced by the institution during the start-up phase. In addition to its small business lending, the bank has adequately participated in community development lending, investments and service activities

Southwest Bank of Phoenix			
PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory			
Low Satisfactory	X	X	X
Needs to Improve			
Substantial Noncompliance			

**NOTE: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.*

PERFORMANCE CONTEXT

DESCRIPTION OF INSTITUTION

Southwest Bank of Phoenix is a unit bank located in Phoenix, Arizona that commenced operations on December 27, 2001. The bank is wholly owned by Mississippi Valley Bancshares, Inc., a multi-bank holding company headquartered in St. Louis, Missouri, that has two other subsidiary banks: Southwest Bank of St. Louis, and Southwest Bank of Belleville, Illinois.

The bank is primarily a commercial lender and as such offers commercial real estate loans, equipment loans and leases, and working capital loans and lines of credit. Consumer purpose loans are offered on an accommodation basis for the bank's business customers. As of September 30, 2001, the bank had total assets of \$90.5 million, total loans of \$54.2 million and total deposits of \$76.4 million. The bank's loan portfolio mix is depicted below.

Loan Type	Dollar Amount ('000s)	Percent of Value
Commercial/Industrial & Non-Farm Non-Residential Real Estate	\$39,260	81.5%
Secured by 1-4 Family Real Estate	\$1,268	2.6%
Construction	\$6,190	12.9%
All Other	\$1,000	2.1%
Total (Gross)	\$48,158	100%

Source: Report of Condition

This examination is Southwest Bank of Phoenix's first CRA examination. Given that the bank is a subsidiary of a holding company with consolidated assets greater than \$1 billion, the large bank CRA examination procedures were used for the evaluation.

There are no legal or financial impediments that would prevent the bank from helping to meet the credit needs of its assessment area consistent with its business strategy, size, financial capacity and local economic conditions.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area contains 381 census tracts within the Phoenix/Mesa metropolitan statistical area (MSA) and includes all or portions of the cities of Phoenix, Glendale, Peoria, Paradise Valley, Scottsdale, Tempe, Mesa, and Chandler. These cities represent a large portion of the MSA. Approximately one-half of Arizona's 5.1 million population resides within the bank's defined assessment area. According to 2000 census estimates, the city of Phoenix has a total population of 1.3 million people, a 34 percent increase since 1990.¹ The following table

¹ Source: U.S. Census Bureau

depicts the 1990 population and family distribution by census tract that are considered when evaluating the bank's CRA performance.

Income Level	Census Tracts		Population		Families	
	Number	Percent	Number	Percent	Number	Percent
Low-Income	24	6%	81,288	5%	16,411	4%
Moderate-Income	86	23%	441,279	25%	103,529	23%
Middle-Income	138	36%	683,076	39%	175,061	39%
Upper-Income	129	34%	555,219	31%	153,481	34%
Unknown Income	4	1%	3,566	.2%	0	0%
Total	381	100%	1,764,428	100%	448,482	100%

Economy

A fairly diverse economy and growing retirement communities have been major factors in drawing migrants during the 1990's. Manufacturing (durable goods), services (including tourism), retail trade and government are the area's top employees. The economy in the MSA however, is slowing with employment growth only marginally above the national average. Slower growth in semiconductor manufacturing, business services and retail trade has been the primary cause. The area's financial services industry remains solid, but construction activity is starting to cool as vacancy rates rise. The MSA unemployment rate has jumped during recent months but remained below the national average through August of 2001.²

Business Demographics

Dun and Bradstreet data for the year 2000 indicates that over 98 percent of all businesses in the assessment area are non-farm businesses and 84 percent of those businesses are considered small businesses (gross annual revenues of \$1 million or less). The distribution of businesses by size and census tract is shown in the table below.

Tract Income Level	Non-Farm Businesses	Percent of Total Non-Farm Businesses	Businesses with Revenues <=\$1MM	Percent of Total Businesses with Revenues <=\$1MM	Businesses with Revenues <=\$1MM as a Percent of Total Non-Farm Businesses in Tract
Low-Income	4,970	6.2%	3,787	5.6%	76.2%
Moderate-Income	19,415	24.1%	16,103	23.6%	82.9%
Middle-Income	28,286	35.2%	24,392	35.8%	86.2%
Upper-Income	27,748	34.5%	23,899	35.0%	86.1%

² Source: Precis: Metro © 2001 Economy.com, Inc.

Housing

Traditionally, the Phoenix metropolitan area has had a strong housing market fueled by a healthy economy and an abundance of land. Nearly half of all Phoenix area neighborhoods had at least 40 percent increases in home prices between 1995 and 2001. Despite these rising prices, the average Phoenix home is still more affordable than an average U.S. home.³ Furthermore, the outlook for the market is solid. The *Arizona Republic* stated that new home building and existing home sales remained strong during November of 2001.⁴

Conclusion

A review of demographic and economic information as well as contacts with local community representatives has revealed the major credit needs in the assessment area to be “micro” business loans (loan amounts ranging from \$10,000 to \$100,000). Financing for community redevelopment projects within Phoenix to help reduce urban sprawl, and financing for business district revitalization in Phoenix were also noted as credit needs. Although housing is more affordable than the U.S. average, housing assistance for low- and moderate-income homebuyers is needed within the assessment area.

³ Source: Arizona Central: <http://www.azcentral.com:80/azc-bin/print.php3>

⁴ Source: *The Arizona Republic*, November 1, 2001.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

SCOPE OF EXAMINATION

The bank's CRA assessment was based on the large bank Community Reinvestment Act examination procedures, which include a lending, investment and service test. A total of 67 small business loans⁵ totaling \$14.7 million were evaluated under the lending test. The sample period for the lending test was December 27, 2000 to September 30, 2001. The bank's performance under the investment and service tests was based on all qualified investment, grant, and service activities granted or performed from inception to November 30, 2001.

LENDING TEST

The bank's lending test performance is low satisfactory. Small business lending reflects a reasonable distribution throughout the assessment area, including in low- and moderate-income geographies. The level of small business loans extended to businesses of different sizes is adequate only when considered in light of the performance context. Furthermore, the bank's performance under this test is bolstered by its community development lending to non-profit organizations concentrating on providing housing, transportation, and technical assistance to low- and moderate-income individuals.

Assessment Area Concentration

The level of lending within the assessment area is reasonable and reflects the bank's focus on meeting local credit needs. In fact, seventy-nine percent of loans by both number and dollar volume were extended within the assessment area.

Lending Distribution by Geography

The bank's lending patterns reflect a reasonable distribution among census tracts of different income levels. In particular, the percentage of the bank's small business lending in moderate-income census tracts was substantially above both the percentage of businesses in moderate-income geographies and the percentage of the aggregate market's lending in these tracts. The percentage of small business lending in low-income areas was reasonable when making similar comparisons. No conspicuous lending gaps were noted as the bank's lending was evenly distributed throughout the assessment area. The table on the following page shows the bank's lending distribution by census tract.

⁵ Small business loans are those loans with loan amounts of \$1 million or less.

Census Tract Category	Census Tract Distribution	Percentage of Businesses	Bank Lending		Aggregate Lending	
			Number	Dollar Volume	Number	Dollar Volume
Low-Income	6%	6%	8%	6%	6%	10%
Moderate-Income	23%	24%	37%	35%	20%	25%
Middle-Income	36%	35%	24%	35%	33%	31%
Upper-Income	34%	35%	31%	24%	41%	33%

Lending Distribution by Business Size

The bank's lending to businesses with gross annual revenues of \$1 million or less was much lower than the percentage of small businesses in the assessment area. In addition, both the percentage of the aggregate market's lending and the percentage of competitor bank lending to small businesses was significantly higher than the bank's lending. To illustrate, the bank extended 19 percent of its small business loans to small businesses, while small businesses represent 84 percent of all businesses in the assessment area. In addition, the aggregate market extended 31.8 percent of all small business loans to small businesses, while local competitors extended in excess of two-thirds of their small business loans to small businesses.

As previously stated, this performance is reasonable only when considered in light of the performance context. Given that the bank is new, its loan portfolio is comprised of a significant number of lending relationships which were developed by loan officers, senior management, and the board of directors during previous employment with other financial institutions. This type of loan portfolio is typical for new financial institutions, particularly in their first year of operation. The following table shows the bank's small business lending record. In this respect, the portfolio is more representative of prior lending relationships and is much less representative of the assessment area's demographics.

Small Business Originations	Loan Amount			Total
	<= \$100,000	>\$100,000 to <=\$250,000	>\$250,000 to <=\$1,000,000	
Number of Small Business Loans	33	15	19	67
Number of Loans to Businesses with Gross Annual Revenues up to \$1 Million	8	3	2	13
Percentage of Loans to Businesses with Gross Annual Revenues up to \$1 Million	24%	20%	11%	19%
Dollar Volume ('000) of Small Business Loans	\$1,731	\$2,882	\$10,110	\$14,723
Dollar Volume ('000) to Businesses with Gross Annual Revenues up to \$1 Million	\$278	\$592	\$730	\$1,600
Percentage of the Dollar Volume of Lending to Businesses with Revenues up to \$1 Million	17%	21%	7%	11%

Community Development Lending

The bank's level of community development lending demonstrates a reasonable responsiveness to community development needs in the assessment area. The bank has addressed these needs by originating three loans, amounting to \$184,000, related to affordable housing for low- and moderate-income individuals. Details of these loans are as follows:

- An \$89,000 loan to fund the purchase of a foster home which can hold up to six boys.
- A \$45,000 loan, which funded the purchase of a van to provide transportation for the residents of a senior-assisted living care facility. Approximately 60 percent of the residents are low- or moderate-income individuals.
- A \$50,000 loan to participate in a loan pool that is sponsored by a housing service organization. Funds from the pool are used for purchase money and second lien home loans for low- and moderate-income individuals.

INVESTMENT TEST

Southwest Bank of Phoenix's performance under the investment test is low satisfactory. The bank made a total of \$375,000 in qualified investments; representing approximately 2 percent of its total investment portfolio. The bank invested in a below-market-rate certificate of deposit with a local, minority-owned, community development credit union. The credit union provides a below-market funding source that supports its social programs and efforts to provide education, employment and quality affordable housing. The bank also purchased a targeted mortgage-backed security and made \$7,213 in qualified donations to numerous organizations that render various services to low- and moderate-income people or in low- and moderate-income geographies. These organizations provide technical and financial expertise to low- and moderate-income homebuyers, educational and recreational services to low- and moderate-

income youth, redevelopment of central Phoenix, and meals to low- and moderate-income individuals.

SERVICE TEST

The bank's performance under the service also is low satisfactory.

Retail Banking Services

Delivery systems are reasonably accessible to the community considering the bank's location and business focus. Hours of operation are 9:00 a.m. to 4:30 p.m., Monday to Thursday and 9:00a.m to 5:00 p.m. on Fridays. The bank has drive-up banking with slightly extended hours (8:30a.m to 5:00p.m. Monday to Friday) and 24-hour access to an onsite automated teller machine. The bank has also increased access to the community it intends to serve through the availability of additional services such as free telephone banking (in English and Spanish), Internet banking, bank-by-mail, and 24-hour access to Southwest accounts on the Wells Fargo ATM network.

Community Development Services

The bank provides a reasonable level of qualified community development services in the assessment area. This is accomplished through senior management's participation on the board of directors, and loan and finance committees of various community development organizations. In this way, the bank provides technical and financial expertise to organizations that promote revitalization of low- and moderate-income geographies, make affordable housing more accessible for low- and moderate-income individuals, and provide support services to low- and moderate-income youth. For instance, a bank board member has assisted with various revitalization efforts in central Phoenix, such as future light rail service, low- and moderate-income housing on empty lots, and city beautification.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS

The examination did not reveal any evidence that the bank engages in any type of discriminatory or discouraging practices in its lending activities. The bank is in compliance with all provisions of fair lending laws and regulations.

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).

Community Development Service

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.

Consumer Loans

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.

Census Tract

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.

Family Income

Includes the income of all members of a family that are age 15 and older.

Families	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.
Geographies	Census tracts or numbering area blocks delineated by the U.S. Bureau of Census in the most recent decennial census.
Household Income	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.
Households	Defined by the U.S. Bureau of Census as all persons occupying a housing unit.
Housing Unit	Includes a house, an apartment, a mobile home, a group of homes, or a single room that is occupied as separate living quarters.
HUD Adjusted Median Income	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.
Income Level	Includes low-income, moderate-income, middle-income and upper-income.
Low-Income	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.
Median Income	See Area Median Income and HUD Adjusted Median Income
Metropolitan Statistical Area (MSA)	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.

Middle-Income	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.
Moderate-Income	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.
Owner-Occupied Housing Unit	Includes housing units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.
Qualified Investment	A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.
Real Estate Mortgage Loan	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.
Small Bank	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.
Small Business	Businesses with gross annual revenues of \$1 million or less as defined by the Community Reinvestment Act.

Small Business Loan

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.”

Upper-Income

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.