

# **PUBLIC DISCLOSURE**

**March 22, 1999**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**M&I Thunderbird Bank  
RSSD ID No.: 974567  
One East Camelback Road  
Phoenix, Arizona 85012-1647**

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

*Note: 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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## **GENERAL INFORMATION**

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance for **M&I Thunderbird Bank** prepared by the Federal Reserve Bank of San Francisco, the institution's supervisory agency, as of **March 22, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to CFR Part 228.*

## **INSTITUTION**

**INSTITUTION'S CRA RATING:** This institution is rated satisfactory.

M&I Thunderbird has exhibited satisfactory performance under the Community Reinvestment Act (CRA) by adequately responding to the credit needs of its defined assessment area. Consistent with its business focus, small business lending shows a particularly good responsiveness relative to volume of credit extended and the geographic distribution of loans among the different income geographies within the bank's assessment area. This small business lending profile has been, in part, facilitated by the bank's designation as a Small Business Administration (SBA) Preferred Lender. As a secondary product line, the bank also extends housing credit, and overall volume has increased since the previous examination. While this activity has been concentrated in the bank's assessment area, the incidence of credit to the low- and moderate-income sectors of the bank's market has declined despite an existing demand, particularly for affordable housing and home improvement loans. Moreover, while community development loans have been made, market activities suggest additional opportunities are available.

Assessment findings note that the bank has made qualified investments and services that promote community development. These activities have had a positive impact on the bank's assessment area, and overall performance under the investment and service tests is generally adequate.

<b>PERFORMANCE LEVELS</b>	<b>NAME OF FINANCIAL INSTITUTION</b>		
	<b>PERFORMANCE TESTS</b>		
	<b>Lending Test*</b>	<b>Investment Test</b>	<b>Service Test</b>
Outstanding			
High Satisfactory			
Low Satisfactory	<b>X</b>	<b>X</b>	<b>X</b>
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.

## DESCRIPTION of INSTITUTION

M&I Thunderbird Bank, headquartered in Phoenix, Arizona is a wholly owned subsidiary of Marshall & Ilsley Corporation, a multi-bank holding company based in Milwaukee, Wisconsin. The bank is a full service institution with a heavy emphasis in business lending. The bank identifies its primary market as small- to medium-sized commercial businesses and retail deposit customers located throughout Maricopa County.

As of December 31, 1998, M&I Thunderbird Bank had total assets of \$801 million and operated 11 full-service branches, two facilities<sup>1</sup> and one stand-alone Automated Teller Machine (ATM) in the Chandler Regional Hospital. Four branches are located in Phoenix, two in Scottsdale, and one each in the cities of Sun City, Sun City West, Glendale, Tempe and Chandler. The Beatitudes and the Glencroft facility are located in Phoenix and Glendale, respectively. The bank's Sun City West branch was opened since the last CRA examination, as of December 2, 1996.

M&I Thunderbird Bank maintains an expertise in business lending mainly through its SBA 504, 7A and Low Doc programs. The bank is now a Preferred Lender with the distinct advantage of expedited processing time over other SBA lenders.

As of the December 31, 1998, Consolidated Reports of Condition and Income (Call Report), the distribution of the bank's loan portfolio is as follows:

<b>Loan Type</b>	<b>Dollar Amount ('000s)</b>	<b>% of Total</b>
Commercial/Industrial & Non-Farm Non-Residential	279,687	51.0
1-4 Family Residential Revolving	27,345	5.0
1-4 Family Residential Other	93,569	17.0
Multifamily	193	0
Individuals – Credit Cards	8,875	1.6
Individuals – Consumer Loans	12,195	2.2
Farmland & Agriculture	3,804	0.7
Other Commercial Banks	100,000	18.2
Construction & Land Development	15,113	2.8
States and Political Subdivisions	2,591	0.5
Lease Financing	76	0
All Other	5,339	1.0
<b>Total (Gross)</b>	<b>548,787</b>	<b>100.0</b>

<sup>1</sup> Deposit only service in residential retirement communities

As reflected by the table above, the bank's primary products are comprised of commercial loans representing 51 percent of the loan portfolio, followed by residential real estate lending at 22 percent. Both portfolios, when compared to the December 31, 1996 Call Report data, reflect increased activity. When compared to the outstanding balances at the previous examination dated December 2, 1996, the commercial portfolio reflects a 19 percent increase while its 1-4 family residential secured and multifamily lending reflects a more significant increase of 77 percent. On a comparative basis, these trends suggest a response to the increasing residential real estate lending demand in the market.

The bank has no financial constraints or legal impediments that would inhibit meeting community credit needs consistent with its business strategy, size, financial resources, and local economic conditions. Nonetheless, the bank faces competition from 30 banks and 41 credit unions operating in Maricopa County.

At the previous examination, the bank was rated outstanding under the 12-assessment factor methodology that evaluates a bank's CRA process as well as lending performance. At this examination the bank was subject to the new large bank CRA assessment methodology which focuses solely on performance. In that regard, the bank's results in the three performances tests, namely lending, investment and service, aggregated to an overall satisfactory rating.

## DESCRIPTION OF ASSESSMENT AREA

M&I Thunderbird Bank's assessment area is Maricopa County, which, together with Pinal County, comprises the Phoenix-Mesa, Arizona MSA. Maricopa County measures 9,222 square miles and consists of assessment area 466 contiguous census tracts. The bank's assessment area represents a six percent increase from its former "circle" delineation with the addition of 25 whole geographies.

Illustrated in the following table is the distribution of the assessment area's 466 census tracts with the corresponding businesses, population and families in those geographies. Additionally, the table indicates the number and percentages of families by their income designation:

	Census Tracts		Businesses (1998 Dun & Bradstreet)		Population		Families by Tract Categories		Families by Income Level	
	#	%	#	%	#	%	#	%	#	%
<b>Low</b>	31	7	4,398	6	98,287	5	19,500	3	105,120	19
<b>Moderate</b>	108	23	17,617	24	522,145	25	124,438	23	99,808	18
<b>Middle</b>	178	38	26,754	36	855,860	40	228,054	41	128,274	23
<b>Upper</b>	149	32	25,735	34	645,809	30	180,917	33	219,707	40
<b>Total</b>	466	100	74,504	100	2,122,101	100	552,909	100	552,909	100

The bank's market is primarily middle- and upper-income, as illustrated by the fact that at least 70 percent of the businesses, population and families exist in such designated geographies. Moreover families with such income designations comprise more than 60 percent of the family

population. What is interesting to note however is that, while approximately 30 percent of the business and consumer population is within low- and moderate-income tracts, almost 40 percent of families in the assessment area are considered low- or moderate-income. Also, of the total 552,909 families, only 9 percent live below the poverty level.

Included in the bank's assessment area are five Indian Reservations that occupy five percent of the land in Maricopa County. The Salt River Pima-Maricopa Indian Community, the Gila River Indian Community, and the Tohono O'Odham Indian Community are three of the largest communities occupying a total of 378 square miles.<sup>2</sup> The Fort McDowell Mohave-Apache Community and the Gila Bend Indian Community are smaller in size and occupy 56 square miles. The Salt River Pima-Maricopa Indian Community located in the northeast and the Gila River Indian Community located in the southeast lie in close proximity to the bank's branch network.

Arizona's unemployment rate of 4.3 percent<sup>3</sup> is below the nation's at 4.6 percent while Phoenix boasts a low rate of 2.9 percent. Phoenix was also selected as one of the two top growth spots for high technology as reported by LaSalle Advisors Capital Management Group in Chicago in Area Development in September 1998. Adding to the growth are 350 aerospace firms, accounting for \$1.9 billion of the Arizona economy. These firms, according to the Greater Phoenix Blue Chip Economic Forecast, are expected to grow significantly in 1999.

Additionally, The Gold Sheet, a summary of Arizona's demographic, business, and economic data compiled by the Arizona Department of Commerce, noted that Maricopa County experienced five of the seven major business expansions in the state during the period of 1997 through 1998. They are depicted in the table below:

<b>Company</b>	<b>Location</b>	<b>Job Increase</b>
Green Tree Financial	Scottsdale	1,500
Vanguard Group	Scottsdale	1,200
Mayo Hospital/Clinic	Phoenix/Scottsdale	600/800
Avnet <sup>4</sup> Corporate Headquarters	Phoenix	500
Packaging Resources	Phoenix	140

Small businesses constitute the majority of businesses operating in Maricopa County. Eighty-seven percent of the 74,504 businesses reported gross annual revenues equal to or less than \$1 million.<sup>5</sup> According to outside contacts, credit needs of these entities include financing in amounts of \$100,000 or less.

<sup>2</sup> Source: Arizona Land Resource Information System, 1997

<sup>3</sup> Source: The Gold Sheet, Arizona Economic Development Update – November/December 1998

<sup>4</sup> Avnet ranks 8<sup>th</sup> in Information Week Magazine survey of 500 Top Technology Innovators in America

<sup>5</sup> Source: Dun and Bradstreet (D&B) Employment Data as of December 31, 1998

Maricopa County, the largest county in the state, has experienced a 28.2 percent increase in population from 1990 through 1997.<sup>6</sup> The growth trend continued in 1998, when the population rose by 3.1 percent from 2,699,098 to 2,784,075.<sup>7</sup> More than half of the state's population resides in Maricopa County, which includes the cities of Phoenix, Mesa, Glendale, Scottsdale, Tempe, Chandler, Preoria and Gilbert. Phoenix, Arizona's capital and the county seat, is the sixth largest city in the nation with a population of 1.2 million, and is the center of political and economic activity providing a myriad of investment and community development opportunities. For example, Maricopa County itself has five designated enterprise zones. They include a 20-square-mile enterprise community in central Phoenix and others in the cities of Mesa, Tempe, Glendale and Chandler.

Census data indicated that 84 percent of the housing units in Maricopa County are owner-occupied. Home ownership in the low- and moderate-income geographies at 30 and 37 percent, respectively, is below the middle-income tract profile at 57 percent and the upper-income tracts at 69 percent. The influx of people into Maricopa County has escalated demands on the housing market. Consequently, increased housing construction was evident. According to a study published by the Arizona State University, 17,800 home construction permits were issued in the Phoenix area during the first half of 1998, up 23 percent from 1997. The study also indicated that existing home sales in the Phoenix area hit 40,000 in the first nine months of 1998, up 15 percent from 1997.

Local realtors interviewed during the examination estimated the 1998 median sales price at \$128,000 for single family homes in the low- and moderate-income census tracts in the South Phoenix area. They also indicated that "fixer-upper" homes were available for prices in the \$60,000 and \$70,000 range. Examiner calculations indicated that, although a low-income borrower would be able to afford the homes in the lower price range, they would be priced out of the market for a home at \$128,000.<sup>8</sup> A moderate-income borrower on the other hand could afford to borrow \$148,093, well above the estimated median home sales price for 1998.

Credit needs in the assessment area, as articulated by community contacts, continue to be the need for small business loans, mortgage loans, home improvement loans for "fixer-uppers", and construction loans for affordable housing for low- income families. Technical assistance in small business lending is needed for providing guidance on developing business plans and completing loan applications.

## **SCOPE OF EXAMINATION**

This examination was the first evaluation under the revised Community Reinvestment Act regulation of M&I Thunderbird Bank. Examiners performed a full-scope review of the bank's assessment area. The review consisted of an evaluation of the bank's performance for the period of January 1, 1997, through December 31, 1998, with respect to the lending test while the period of review for the investment and service tests was through the examination date of

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<sup>6</sup> Source: Arizona Department of Commerce, Population Density for Arizona

<sup>7</sup> Source: Population Estimates Program, Population Division, U.S. Bureau of the Census

<sup>8</sup> Using the 1998 HUD adjusted median family income of \$48,300 for the Phoenix-Mesa, AZ MSA, debt-to-income of 32 percent, monthly gross income of \$3,220, property taxes of \$106



March 22, 1999. For the lending test, examiners reviewed small business and Home Mortgage Disclosure Act (HMDA) reportable loans for home purchase, refinance, and home improvement. These loan types represent the majority of the bank's loan portfolio and are indicative of the bank's primary products. As the table below illustrates, small business lending constituted the majority of lending during the sample period.

<b>Loan Type</b>	<b>1997 Lending Activity</b>	<b>1998 Lending Activity</b>	<b>Total Activity</b>
Small Business	950	891	1,841
Home Purchases	95	122	217
Home Refinances	67	142	209
Home Improvement	202	33	235
<b>Total</b>	<b>1,314</b>	<b>1,188</b>	<b>2,502</b>

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

### **LENDING TEST**

M&I Thunderbird Bank's overall performance under the lending test is low satisfactory. The bank's volume of small business loans together with an average loan-to-deposit ratio of 68 percent indicates that its response to credit needs is good relative to its capacity. The distribution of loans throughout the geographies in the assessment area and businesses of different sizes indicates that the bank is meeting credit needs in a satisfactory manner.

While small business loans continued to be the bank's primary product, the bank's role as a residential real estate lender is becoming more important given the significant increase in volume since the previous examination, and the resultant impact on the bank's portfolio make up. As a result, an assessment of the bank's residential lending was included in this review. The bank's real estate activity in low- and moderate-income areas was not as strong as the bank's small business lending profile. In fact, a comparison of HMDA data (1995) utilized at the previous examination to HMDA data (1997 and 1998) reviewed at the current examination illustrates that the bank's lending in low- and moderate-income geographies has declined. Additionally, current data shows that lending to low- and moderate-income borrowers has also declined.

The bank's overall lending activity was supplemented by some community development lending which used two loan programs tailored to increase access to credit and home ownership.

### **Assessment Area Concentration**

M&I Thunderbird Bank's record of lending shows that a substantial majority of its loans are extended within its assessment area. Depicted below is the distribution of the small business loans and the HMDA loans originated during the review period:

<b>Product</b>	<b>Business Loans</b>				<b>HMDA Loans</b>			
<b>Assessment Area</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>
Total Inside	1,808	98	312,168	97	627	95	83,931	94
Total Outside	33	2	10,648	3	35	5	5,630	6
<b>Total loans</b>	1,841	100	322,816	100	662	100	89,561	100

As the table shows, both in number and dollar volume, the bank's small business and HMDA loans are highly concentrated inside its assessment area. Viewed collectively, 97 percent by number and 96 percent by dollars was extended within the bank's assessment area. This lending activity, when compared to the data from the previous examination, where 88 percent by number and 76 percent by dollars was extended inside the bank's community depicts a positive lending profile and is primarily due to the bank's expanded assessment area.

### **Lending Distribution by Geography**

The geographic distribution of loans reflects a good distribution throughout the different income geographies within the bank's assessment area. This conclusion is based on activity reviewed during the review period relative to the demographic of the assessment area and the corresponding lending opportunities.

### **Small Business Loans**

#### **Geographic Distribution of 1997 Small Business Lending** **(by number)**

<b>Tract Levels</b>	<b>1997</b>							
	<b>Low-Income</b>		<b>Moderate-Income</b>		<b>Middle-Income</b>		<b>Upper-Income</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Census Tracts</b>	31	7	108	23	178	38	149	32
<b>Small Business Loans</b>	143	15	256	27	267	29	268	29
<b>Aggregate Market Small<sup>9</sup> Business Lending</b>	1,721	8	5,318	24	7,626	33	7,891	35
<b>Small Businesses<sup>10</sup></b>	3,351	5	14,796	23	23,441	36	22,903	36

During 1997, particular strength was evident in the bank's small business lending profile. For example, the bank's lending to businesses throughout the various income geographies showed an affirmative response relative to the percentage of small businesses within the different geographies, particularly in the low- and moderate-income tracts. Additionally, when compared to the market, the bank's business lending surpassed the market in both the low- and moderate-income tracts.

<sup>9</sup> Source: CRA 1997 small business data for large banks required to collect and submit data under the CRA regulation

<sup>10</sup> Source: 1998 D & B data

**Geographic Distribution of 1998 Small Business Lending**  
(by number)

1998								
Tract Levels	Low-Income		Moderate-income		Middle-Income		Upper-Income	
Census Tracts	#	%	#	%	#	%	#	%
	31	7	108	23	178	38	149	32
<b>Small Business Loans</b>	86	10	278	32	293	33	216	25
<b>Small Businesses</b>	3,351	5	14,796	23	23,441	36	22,903	36

Although 1998 aggregate market data was not available for this examination, the bank's distribution among the low- and moderate-income geographies at 42 percent continues to reflect a good response to businesses throughout the various income geographies. Although there was a slight decline between 1997 and 1998 in lending in the low-income census tracts, comparable percentage increase (5 percent) was noted in the moderate-income geographies.

**HMDA Loans**

**Geographic Distribution of 1997 HMDA Lending**  
(by number)

1998				
	Low-Income	Moderate-Income	Middle-Income	Upper-Income
<b>Census Tracts</b>	7%	23%	38%	32%
<b>HMDA Loans</b>	1%	6%	29%	64%
<b>Families</b>	3%	23%	41%	33%
<b>Market<sup>11</sup></b>	1%	12%	41%	46%

As the table depicts, ninety-three percent of the bank's HMDA lending is in the middle- and upper-income tracts where 74 percent of all families reside. While a concentration of lending in these geographies is reasonable given they represent most of the bank's market, lending particularly in moderate-income tracts is below expectations given the percentage of families and market performance.

<sup>11</sup> Source: 1997 aggregate market data

**Geographic Distribution of 1998 HMDA Lending**  
**(by number)**

<b>1998</b>				
	<b>Low-Income</b>	<b>Moderate-Income</b>	<b>Middle-Income</b>	<b>Upper-Income</b>
<b>Census Tracts</b>	7%	23%	38%	32%
<b>HMDA Loans</b>	1%	6%	25%	68%
<b>Families</b>	3%	23%	41%	33%

The tables show that when a comparison is made of 1997 and 1998 data, the lending profile in the low- and moderate-income census 1998 remained unchanged while lending in the upper-income tracts showed growth.

The prior performance evaluation also reported a disparity in HMDA lending levels relative to the percentage of those tracts in the assessment area and the market performance, with the bank at 10 percent and the market at 12 percent. More recent data indicates that the disparity has widened, particularly with respect to lending in moderate-income tracts. The bank's competitive market place is acknowledged, however, lower home ownership rates<sup>12</sup> in the low- and moderate-income tracts, together with an older housing stock in these areas<sup>13</sup> illustrate that additional lending opportunities for mortgages and home improvement loans exist consistent with needs articulated by community contacts.

**Lending Distribution by Business Size or Borrower Income**

M&I Thunderbird Bank's lending distribution by business size and borrower income is reasonable. The profile of the bank's performance of small business lending reflects a preponderance of loans to organizations with revenues of greater than \$ 1 million. While this concentration appears inconsistent with the market where the majority (87 percent) of the businesses are enterprises of \$1 million or less (i.e., small businesses), the loans to small businesses have been granted for critical financing needs. Moreover, data shows an increased in the percentage of lending to small businesses in 1998. With regards to lending to borrowers of different income levels, the bank has granted credit to low-, moderate-, middle- and upper-income consumers. However, assessment findings disclosed that HMDA lending to low- and moderate-income borrowers is inconsistent with the apparent opportunity for such loans as measured by the percentage of such families in the market, and their credit needs as disclosed by community contacts.

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<sup>12</sup> Source: Census data indicates that only 36 percent of the total 294,521 housing units in the low- and moderate census tracts are owner-occupied.

<sup>13</sup> Age of housing stock: 47 years in low-income and 22 years in moderate-income census tracts versus 14 years in the upper-income tracts.

## **Small Business Loans**

### **1997 Small Business Loans to Small Businesses**

<b>Loan Amount</b>	<b>#</b>	<b>%</b>	<b>\$ (000)</b>	<b>%</b>
<b>\$0 to &lt;=\$100,000</b>	<b>222</b>	<b>82</b>	<b>7,927</b>	<b>36</b>
<b>&gt;\$100,000 to &lt;=\$250,000</b>	<b>31</b>	<b>12</b>	<b>5,427</b>	<b>24</b>
<b>&gt;\$250,000 to &lt;=\$1,000,000</b>	<b>17</b>	<b>6</b>	<b>8,806</b>	<b>40</b>
<b>Total - Loans</b>	<b>270</b>	<b>100</b>	<b>22,160</b>	<b>100</b>

The table above depicts the distribution, by loan amount, of the small business loans made by the bank in 1997 to business with revenues of less than \$1 million. Of the 934 loans extended inside the assessment area in 1997, 270, or 29 percent, were extended to small businesses. This is generally comparable to the market at 32 percent and is reasonable given the competitive small business loan market. Moreover, from a qualitative perspective 82 percent of the 270 loans were extended in amounts under \$100,000, which is responsive to core operating needs of the small business borrower. It should also be noted that, as an institution with an established small business lending focus, the concentration of credit to businesses over \$1 million in revenue in part reflects a portfolio of established relationships where financing has funded business growth and expansion.

### **1998 Small Business Loans to Small Businesses**

<b>Loan Amount</b>	<b>#</b>	<b>%</b>	<b>\$ (000)</b>	<b>%</b>
<b>\$0 to &lt;=\$100,000</b>	<b>289</b>	<b>75</b>	<b>12,318</b>	<b>27</b>
<b>&gt;\$100,000 to &lt;=\$250,000</b>	<b>46</b>	<b>12</b>	<b>8,895</b>	<b>20</b>
<b>&gt;\$250,000 to &lt;=\$1,000,000</b>	<b>49</b>	<b>13</b>	<b>24,374</b>	<b>53</b>
<b>Total - Loans</b>	<b>384</b>	<b>100</b>	<b>45,587</b>	<b>100</b>

The 1998 loans to small businesses shows an increased emphasis on small businesses borrowers compared to the previous year. Of the bank's 873 loans extended inside the assessment area, 383, or 44 percent, were extended to small businesses. This increased emphasis is particularly noteworthy as it also reflects an increase in the number of loans granted to this sector of the market while overall small business lending volume declined. Also, the bank continues to meet the critical need of the small business owners as the majority of these loans extended were in amounts under \$100,000. The heightened response to small businesses in part reflects the local economy which is experiencing growth as businesses move into growth industries as previously noted.

## HMDA Loans

### **1997 HMDA Lending by Borrower Characteristics (by number of loans)**

<b>Assessment Area</b>	<b>Low-Income Families</b>	<b>Moderate-Income Families</b>	<b>Middle-Income Families</b>	<b>Upper-Income Families</b>
	%	%	%	%
<b>Distribution of Families</b>	19	18	23	40
<b>HMDA Loans</b>	3	10	19	68
<b>Aggregate Market Data</b>	5	15	21	36

The table illustrates the distribution of the bank's HMDA lending compared to the distribution of families by income category as well as market performance. The bank's lending to middle- and upper-income borrowers is comparable or better than the percentage of families with such designations and to the aggregate market. Of particular note, lending to upper-income borrowers exceeded the market by 32 percent. However, similar to the geographic distribution profile HMDA lending to low- and moderate-income borrowers is below market. While the aggregate market average indicates that the financial profile of low-income families may preclude robust activity to these borrowers, the same market information for moderate-income borrowers, which is comparable to the distribution of families illustrates an opportunity for increased lending.

### **HMDA Lending by Borrower Characteristics (by number of loans)**

<b>Assessment Area</b>	<b>Low-Income Families</b>	<b>Moderate-Income Families</b>	<b>Middle-Income Families</b>	<b>Upper-Income Families</b>
	%	%	%	%
<b>Distribution of Families</b>	19	18	23	40
<b>HMDA Loans</b>	4	8	11	77

The bank's 1998 HMDA lending shows a comparable profile to that for 1997 with originations to low- and moderate-income borrowers at 12 percent of the bank's total HMDA lending. Moreover, lending to moderate-income borrowers declined as a percentage of overall lending. Further, in absolute terms, the number of loans to low-income borrowers remained the same at 10 while the number of loans extended to moderate-income borrowers declined from 36 to 21 originations. While the earning capacity relative to housing costs has been presented as a contributing factor to the limited lending to individuals of these economic means, lending opportunities nonetheless exist in areas with affordable housing options. As an example, examination data disclosed that home prices in areas such as South Phoenix fall in an affordable price range for low- and moderate-income individuals. Moreover, the bank has demonstrated a capacity for a stronger response as HMDA loans to low- and moderate-income borrowers noted

at the previous examination were 28 percent of overall originations and compared favorably to the market average of 24 percent.

Additionally, the bank has some programs designed to address area housing needs. These include two special loan programs geared to low- and moderate-income borrowers. Since the previous examination five loans totaling \$293,131 were extended.

### **Community Development Lending**

M&I Thunderbird Bank made a low level of qualified community development loans relative to opportunities available. Such opportunities may be presented by projects such as the various enterprise zones in Maricopa county. Moreover, the bank's activity during the review period was to maintain loans originated in 1995 and 1997.

The bank has an existing line of credit to a private non-profit housing development organization that was gradually increased from an initial amount of \$50,000 in 1992 to \$400,000 in 1995. The organization uses the line to fund affordable housing for low- and moderate-income families by acquiring and rehabilitating single family residences. This revolving financing funded 16 properties over the two-year review period.

The bank has also renewed a \$50,000 loan to a non-profit agency that provides affordable housing throughout the Greater Phoenix area. The loan, originally extended in March 1997, was renewed in April 1998. The agency purchases single and multi-family housing and places low- and moderate-income families into the units on a rental basis. The loan was to refinance a twelve-plex that primarily included low- to moderate-income housing units located in southern Scottsdale. According to a community contact, although Scottsdale is an affluent community, this particular section of Scottsdale has a dire need for affordable housing.

### **Innovative or Flexible Lending Practices**

The bank has in place two programs designed to increase access to credit and home ownership.

The bank offers a flexible underwriting program called the Neighborhood Home Loan Program. This program is designed to provide low- and moderate-income households greater access to home ownership than traditional lending methods. Features of this program include no private mortgage insurance, no standard application fee, a loan-to-value of 97 percent (single family) and 95 percent (multi-family), a debt-to-income ratio for housing costs of 30 percent and a total debt-to-income ratio of 40 percent and a downpayment of 3 percent. The bank extended two loans since the previous examination totaling \$130,456 under this program.

The bank also participates in the Fannie Mae Neighborworks Pilot program. This program is offered in conjunction with Neighborhood Housing Services and offers mortgages to low- and moderate-income households. Features include a loan-to-value ratio of 95 percent, downpayment amounts of 2 percent of the sales price and a total debt-to-income ratio of 38 percent. The bank extended three loans since the previous examination totaling \$162,675 under this program.

The bank is a SBA Preferred lender and continues to use the SBA 7A, 504, and Low Doc programs to assist small business owners with their financing needs. During the review period, the bank extended 50 loans totaling approximately \$17.8 million compared to the 15 loans extended at the previous examination for \$7 million. Of these 50 loans, 11 totaling approximately \$2.3 million were extended in enterprise zones within the bank's assessment area.

## **INVESTMENT TEST**

M&I Thunderbird Bank's performance under the investment test is low satisfactory. During the period between examinations, the bank retained previously purchased qualified investments that positively impacted the assessment area. Additionally, the bank has made some new investments, grants and donations to qualified organizations. This activity is deemed to be adequate at this examination, although opportunities for additional activity exist in the market.

The bank's overall level of qualified community development investments for the review period totaled \$1,048,914, equivalent to less than one percent of its total investment portfolio. Two school bonds purchased for \$500,000 and \$350,000 in 1995, with a current carrying value of \$529,900 and \$361,530 make-up the majority of these investments. The bonds were issued for the new construction of a community resource center, a cafeteria and auditorium for an elementary school and a science building for a junior high school. Eighty-five percent of the student body of both these facilities is from low- and moderate-income families.

In July 1998, the bank invested \$50,000 in a non-recourse loan pool investment program, dedicated to the revitalization of Phoenix neighborhoods by providing mortgage lending services and affordable housing development. Additionally in December of that same year, the bank renewed a \$50,000 one-year certificate of deposit with a minority-owned Federal Credit Union which funds small business loans to low- and moderate-income individuals.

These direct investments have been supplemented by \$57,484 in donations and grants to qualified community organizations that provide services and assistance to low- and moderate-income individuals and families.

## **SERVICE TEST**

Based on the provision of both retail banking and community development services, the bank's overall performance under the service test is low satisfactory. The bank's delivery systems are effective, and the community development services are provided to organizations involved in qualified activities. The extent of the provision of community development services is adequate given the bank's expertise and resources.

### **Retail Banking Services**

M&I Thunderbird Bank's retail delivery systems are reasonably accessible to essentially all portions of its assessment area.



Since the previous examination, the bank added one full-service branch bringing the total to eleven full-service offices. Seventy-nine percent of the facilities are located in middle- and upper-income census tracts while twenty-one percent are in moderate-income census tracts. The bank's two limited-service facilities primarily provide deposit services for residents in the retirement communities of Beatitudes and Glencroft.

The bank operates ATMs at all full-service branches except the Sun City branch, and has one-stand-alone ATM. Eight of the branches offer drive-in services and four offer Saturday hours from 9:00 a.m. to 1:00 p.m. Drive-in and lobby weekday hours vary based on customer volume, with some starting as early as 7:30 a.m. and closing at 7:00 p.m.

The bank offers a 24-hour, toll-free telephone banking service ("MiLine") to monitor deposit accounts. Additionally, products offered include personal deposit account packages such as the "Basic Checking" account. This product is a low-cost account for those with low volume account activity and with no minimum daily balance requirement. For small commercial customers, the bank offers a "Business Basic Checking" account.

### **Community Development Services**

The bank provides an adequate level of community development services to CRA-qualified organizations in its assessment areas.

Employees participate in various activities that promote community development. These activities include participation on finance and loan committees, and involvement in a task force for local neighborhood housing services. Personnel also conduct seminars in basic banking and provide technical assistance to local small businesses.

### **COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS**

No violations of the substantive provisions of anti-discrimination laws and regulations were identified at this examination.

## **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>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>Households</b>	Defined by the U.S. Bureau of Census as all persons occupying a housing unit.
<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>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.