# PUBLIC DISCLOSURE

**March 31, 1997**

## COMMUNITY REINVESTMENT ACT
## PERFORMANCE EVALUATION

**The Sun City Bank**
**DSBB# 12-04-112-0000**

**9915 West Bell Road**
**Sun City, Arizona 85351**

**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.**

# 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 of **The Sun City Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of March 31, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

## INSTITUTION'S CRA RATING:

This institution's overall CRA (Community Reinvestment Act) performance is rated **satisfactory** based upon a review of its provision of credit to its community. Evidence was found during the examination that management had taken an affirmative role in identifying and meeting the credit needs of its entire community, including neighborhoods and borrowers of different income levels, in a manner consistent with its resources and capabilities.

*The following table indicates the performance level of T<u>he Sun City Bank</u> with respect to each of the five performance criteria.*

| **SMALL INSTITUTION ASSESSMENT CRITERIA** | **PERFORMANCE LEVELS for <u>THE SUN CITY BANK</u>** | | |
|---|---|---|---|
| | **Exceeds Standards for Satisfactory Performance** | **Meets Standards for Satisfactory Performance** | **Does not meet Standards for Satisfactory Performance** |
| Loan-to-Deposit Ratio | | X | |
| Lending in Assessment Area | | X | |
| Lending to Borrowers of Different Incomes and to Businesses of Different Sizes | | X | |
| Geographic Distribution of Loans | | X | |
| Response to Complaint | No complaints regarding CRA performance were received since the prior examination | | |

## DESCRIPTION OF INSTITUTION:

The Sun City Bank, a wholly-owned subsidiary of Southwest Bancorp., Inc., has total assets of $58.8 million as of December 31, 1997, and operates three branch facilities. The main office is located in central Sun City, Arizona; a second office is located in the community of Sun City West; and, a third office is in the community of Youngtown. All three branches are full service offices offering a variety of competitive loan products, deposit services, and drive-up facilities.

The bank's primary business focus is small business, real estate, and consumer loans within the greater Sun City area. The Sun City Bank does not directly offer long-term residential real estate. The bank does, however, provide consumers with access to long-term residential financing through its two loan mortgage broker representatives who work with third party mortgage investors. The bank's portfolio mix by dollar amount is comprised of 76% real estate loans, 19% commercial loans, and 5% consumer loans. A majority of the bank's asset portfolio mix consists of approximately $25 million in loans (42%), $2.7 million in cash (5%), and $28 million in securities (47%).

Other than the bank's legal lending limits, there are no apparent factors which would impede the bank's ability to help meet local credit needs. The bank's CRA performance was rated needs to improve at the June 3, 1996 examination.

## DESCRIPTION OF *the Greater Sun City Area:*

The Sun City Bank has designated its assessment area as the communities of Sun City, Sun City West, Peoria, El Mirage, Surprise, and portions of Youngtown and Glendale; all are located in Maricopa County. According to 1990 U.S. census data, the population of the area is 245,001. The decennial median family income of the area is $37,869 and is 6% higher than the median family income for the encompassing metropolitan Phoenix area. Consequently, only 5.7% of the families in the assessment area are below the poverty level compared to 9.3% of the families in metropolitan Phoenix. Median housing values are $84,871. The area is comprised of 62 census tracts; 0 are low-income, 11 are moderate-income, 32 are middle-income, and 19 are upper-income. Although there are no low-income and few moderate-income census tracts in the area, there are 23,609 (33%) low- and moderate-income families in the area.

Although primarily thought of as a retirement bedroom community to Phoenix, the population of the greater Sun City area has increased approximately 18% since 1990. The major industries in the area are retail trade and services, manufacturing, finance, and insurance and real estate services. The leading employers are Santa Fe (vehicle distribution center), Calmat and Union ( two mining enterprises), Contech (galvanized pipe manufacturer), Glendale Community College, Arizona State University West Campus, Honeywell (telecommunication), and Luke Air Force Base. The unemployment rate is 5.4%, slightly lower than the metropolitan Phoenix unemployment rate of 6%.

Community representatives who were interviewed in conjunction with this examination identified small business loans and home improvement/rehabilitation loans as the primary credit needs.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The four performance criteria considered in the CRA evaluation are the bank's loan-to-deposit ratio, lending in the assessment area, lending to borrowers of different income levels and to businesses of different sizes, and the geographic distribution of loans. The fifth performance criterion, which covers the bank's response to complaints about its CRA performance, was not considered since the bank has not received any complaints.

### <u>LOAN TO DEPOSIT RATIO</u>:

In order to gauge the reasonableness of The Sun City Bank's loan-to-deposit ratio, the asset size, branch network, major product lines, and (to the extent possible) targeted market of other banks within the greater metropolitan Phoenix area were analyzed. As a result of this analysis and through discussions with bank management, it was determined that The Sun City Bank is similarly situated to one other bank in the area.

After identifying the peer bank, a quarterly average (from June 1996 through December 1996) of The Sun City Bank's loan-to-deposit ratio was calculated. This calculation revealed that the bank's average loan-to-deposit ratio for the three quarters is 43.10%. This ratio was found to not only be comparable, but also slightly above the peer bank's loan-to-deposit ratio.

The bank's ability to raise its loan-to-deposit ratio is somewhat limited since it does not directly offer long-term mortgage loans. However, to facilitate the credit need for long-term mortgage financing, The Sun City Bank has two mortgage broker representatives who work with third party mortgage investors. Also, the bank offers short-term (generally three years) swing loans[1]. Although swing loans are generally not compatible with the financing need of first-time home buyers, it is a type of credit needed by elderly borrowers who are migrating into the adult communities of Sun City.

To meet the demand for small business loan financing, a significant part of the bank's business strategy is focused towards small business lending. However, the bank's ability to compete for small business loans within its assessment area is limited by the close proximity of larger, more competitive banking institutions that offer better terms and a "fast track" approval process. This has also limited the bank's ability to increase its loan-to-deposit ratio.

Overall, the bank's loan-to-deposit ratio is reasonable given its size, financial condition, and assessment area credit needs.

### <u>LENDING IN ASSESSMENT AREA</u>:

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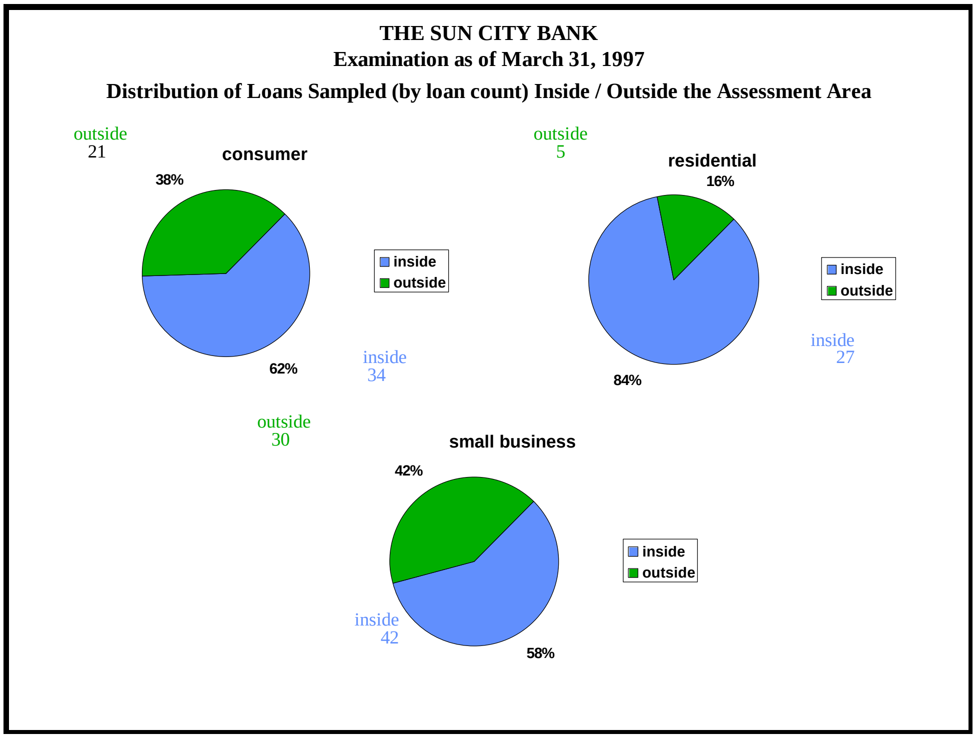
[1] Swing loans are generally extended to borrowers who are purchasing a new home, but have not yet sold their former residence. The loan is secured by the former residence and the proceeds from the loan are used to acquire the new home.

The bank's responsiveness in lending was evaluated by sampling 72 small business loans totalling $6.7 million, 32 residential loans totalling $1.9 million, and 55 consumer loans totalling $1.5 million. A geographic analysis was performed using those samples to identify the percentage of loans extended inside and outside the assessment area. The analysis shows that the majority of the credit products sampled were extended within the assessment area.



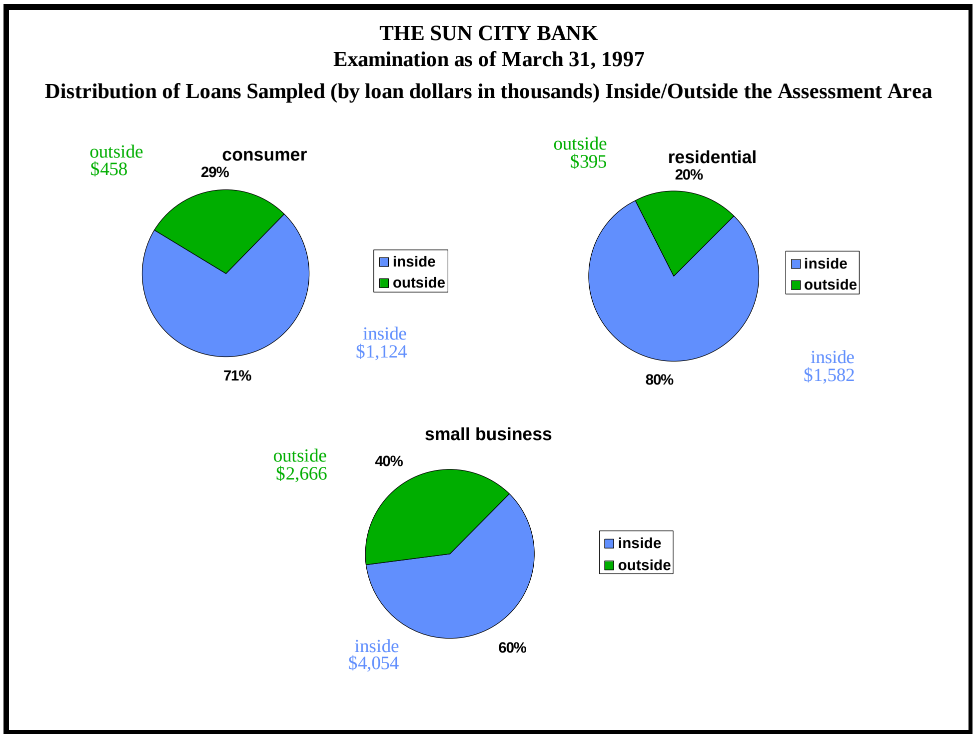



Table 1 illustrates the distribution of loans both by number and by dollar amount. The overall percentages are assessed as satisfactory and support the bank's commitment to serve its community.

**Lending By Loan Type Inside/Outside Assessment Area**

Table 1

| **LOAN TYPE** | **TOTAL NUMBER.** | **TOTAL DOLLAR** | **INSIDE ASSESSMENT AREA** | | **OUTSIDE ASSESSMENT AREA** | |
|---|---|---|---|---|---|---|
| | | | % OF TOTAL NO. | % OF TOTAL DOLLAR | % OF TOTAL NO. | % OF TOTAL DOLLAR |
| Small Business | 72 | $ 6,720 | 58% | 60% | 42% | 40% |
| Residential | 32 | 1,977 | 84% | 80% | 16% | 20% |
| Consumer | 55 | 1,582 | 62% | 71% | 38% | 29% |
| TOTAL | 159 | $10,279 | 65% | 66% | 35% | 34% |

**<u>LENDING BY BORROWER INCOME AND BY BUSINESS REVENUE</u>:**

Examiners reviewed a sample of small business, consumer, and residential loans extended within the assessment area to evaluate the extent of lending to small businesses (gross revenues of $1MM or less), and to low-, moderate-, middle-, and upper-income borrowers.

Borrowers of Different Incomes

Thirty-four consumer loans totalling $1,124,105 and twenty-seven residential loans totalling $1,582,789 extended within the assessment area were reviewed to determine the distribution of loans to borrowers of different income levels. For the analysis, the population is divided into four income groups; low-, moderate-, middle-, and upper-income, based on the median income of the Metropolitan Statistical Area (MSA). The assessment area is located in MSA 6200, which has a HUD-adjusted median family income of $35,000. By definition, the income categories are as follows:

| | |
|---|---|
| low-income | less than 50% of MSA median income |
| moderate-income | between 50% and 79% of MSA median income |
| middle-income | between 80% and 119% of MSA median income |
| upper-income | 120% or more of MSA median income |

The bank is making loans to borrowers in all four income categories as depicted in Table 2. The bank's lending level to low income families is favorable, given that 14.8% of the assessment area represents this income category. In terms of total number and dollar amount, the bank's percentage generally exceeds the percentage of low income families in the assessment area. Although only 6% of the dollar amount went towards consumer loans, this is considered reasonable since these types of loans would typically involve smaller loan amounts.

The bank's lending level towards moderate income families is reasonable. Moreover, the higher percentages of the number and dollar amount of consumer loans indicates a favorable lending level towards this income category. The fact that the percentage of moderate income families in the assessment area is higher than the number and dollar percentages for residential loans is primarily the result of two factors. One is that there is a shortage of residential housing developed for moderate income families. The other is that most of the existing homes in the market do not fulfill the needs or is beyond the means of moderate income families.

The percentages of the number and dollar amount of loans originated by the bank to middle- and upper-income families is generally similar to the assessment area's population.

**Lending By Loan Type To Different Income Levels**
Table 2

| COMPARISON OF BORROWERS TO COMMUNITY POPULATION | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Percentage of Families in Assessment Area** | **LOW INCOME** | | **MODERATE INCOME** | | **MIDDLE INCOME** | | **UPPER INCOME** | |
| | **14.8%** | | **18.2%** | | **25.2%** | | **41.9%** | |
| LOAN TYPE | % OF TOTAL # | % OF TOTAL $ | % OF TOTAL # | % OF TOTAL $ | % OF TOTAL # | % OF TOTAL $ | % OF TOTAL # | % OF TOTAL $ |
| Residential | 19% | 20% | 11% | 9% | 26% | 19% | 44% | 53% |
| Consumer | 18% | 6% | 29% | 22% | 18% | 12% | 35% | 60% |

<u>Businesses of Different Sizes</u>

All 42 business loans totalling $4,054,521 were made to small businesses with revenues less than $1 million. Of the 42 loans to small businesses, 32 (76%) were for loan amounts of $100,000 or less, 4 (10%) were for loan amounts greater than $100,000 but less than or equal to $250,000, and 6 (14%) were for loan amounts greater than $250,000 but less than or equal to $1 million.

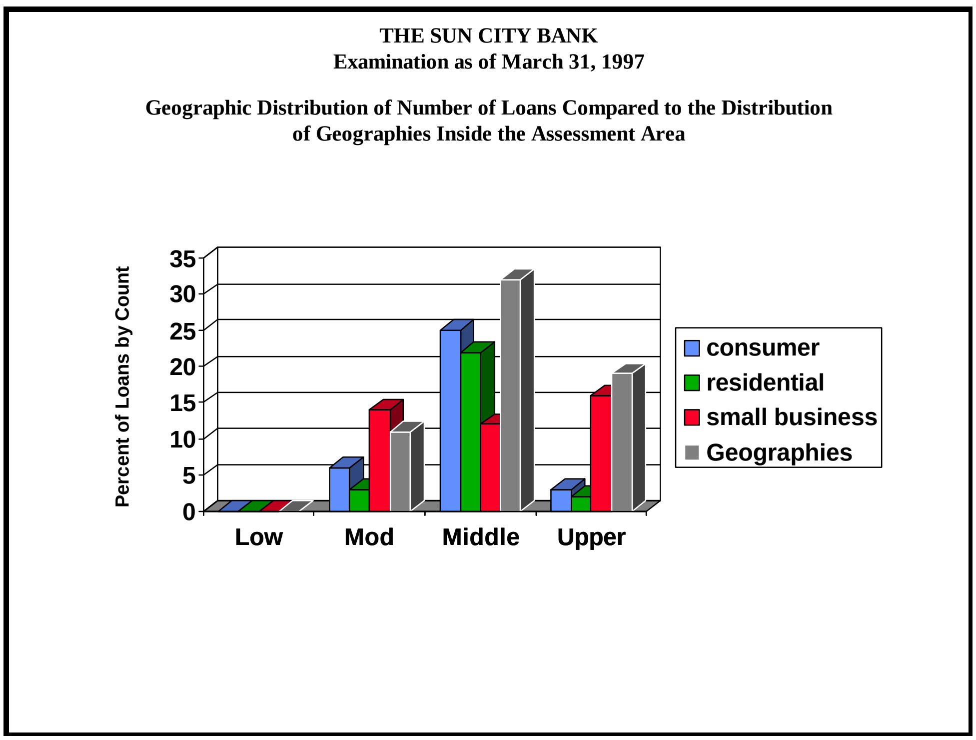
The high percentage of loans to small businesses for loan amounts of $100,000 or less demonstrates that the bank is responsive to the credit needs of the small business community. Contacts with community groups indicated that, within the bank's assessment area, the greatest capital need among small businesses is for loan amounts less than $100,000, and the bank is meeting this credit need.

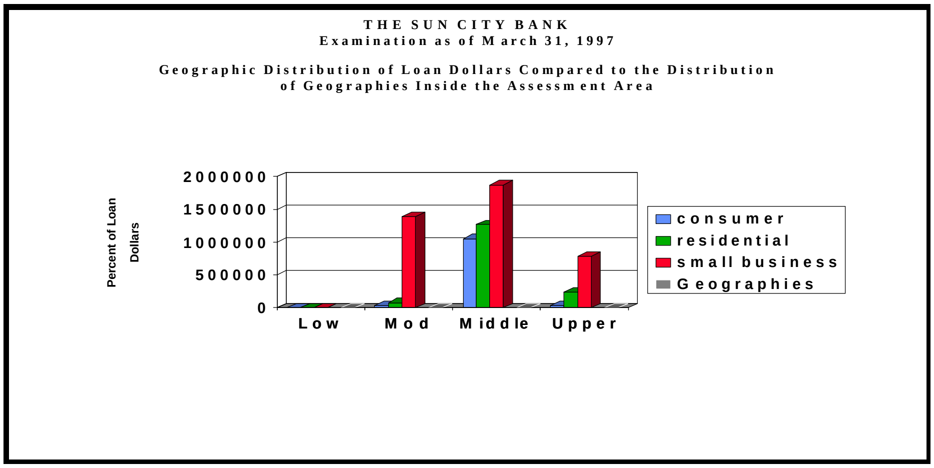
The analysis of small business, residential, and consumer loans demonstrates that the bank has satisfactorily responded to the credit needs of low- and moderate-income borrowers, as well as to small business owners.

**<u>GEOGRAPHIC DISTRIBUTION OF LOANS</u>:**

The bank's geographic distribution of loans was evaluated in a similar manner as the lending performance to borrowers of different income designations. The demographics of the community identifying the number of low-, moderate-, middle-, and upper-income census tracts were compared to the number of loans extended within each of those tracts.

There are no census tracts within the assessment area that are designated as low-income; however, there are 11 (17.7%) designated as moderate-income, 32 (51.6%) designated as middle-income, and 19 (30.6%) designated as upper-income. As illustrated by the following graphs, the bank's percentage of business loans dispersed to different income geographies, both in number and dollar volume, is substantially similar to the percentage of tracts that comprise the three income categories within the assessment area. With regard to consumer and residential loans, examiners noted information from the performance context that reasonably explains the low level of lending. Since 39% of the households living below the poverty level are living in moderate-income tract, it would be reasonable for the percentage of loans in moderate-income census tracts to be somewhat below the percentage of census tracts that comprise the moderate-income categories. Additionally, examiners reviewed the bank's small business loans to identify the penetration of business loans extended in the areas where small businesses are located. In this regard, examiners noted that a majority of the businesses are located in middle- and upper-income census tracts which correlates favorably to the distribution of business loans among the different income geographies. The geographic distribution of loans in the assessment area meets standards for satisfactory performance.






## <u>RESPONSE TO COMPLAINTS</u>:

The bank did not receive any written complaints about its CRA performance during the period under review; therefore, this performance criterion was not evaluated.

## <u>COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS</u>:

The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations such as the Equal Credit Opportunity Act, the Fair Housing Act, and the Home Mortgage Disclosure Act. While there was a violation of the Equal Credit Opportunity Act, it was technical in nature and did not have a discriminatory effect, nor did it negatively affect the bank's CRA performance. Moreover, a review of the bank's loan distribution and credit evaluation procedures indicate that no applicants are discouraged from requesting the types of credit offered by the bank. The policies, procedures, and training programs developed by the bank adequately support non-discrimination in lending.