PUBLIC DISCLOSURE

April 14, 1997

COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION

Guardian State Bank
12-49-0417-0000

142 East 200 South
Salt Lake City, Utah 84111

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 of **Guardian State Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of April 14, 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:

The institution's overall CRA performance is rated satisfactory based upon a review of its provision of credit to its community. Evidence was found during the examination that management has taken action in identifying and meeting the credit needs of its community. Guardian State Bank maintains an exceptionally high loan to deposit ratio relative to its local and national peer groups. In addition, the majority of its lending is distributed among geographies of different income levels within the assessment area. The bank also extended mortgage loans to low- and moderate-income borrowers and directed a substantial portion of its lending to small businesses.

The following table indicates the performance level of Guardian State Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	**PERFORMANCE LEVELS for Guardian State Bank**		
	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 Complaints	No complaints were received since the previous examination.		

DESCRIPTION OF INSTITUTION:

Guardian State Bank is a wholly owned subsidiary of Guardian Bancorp, Inc., a bank holding company. The bank currently operates four full service offices, all located in Salt Lake County, that have ATM machines and provide 24-hour banking services. The branches also offer a variety of real estate, commercial and consumer purpose loans. Additionally, in May 1996, the bank opened a mortgage department offering long term financing. Guardian State Bank is also one of the largest SBA lenders in the state of Utah and participates in the SBA "Preferred Lender" program. As of December 31, 1996, the bank had total assets of approximately $88 million, a 17% increase in assets since the previous examination. Most of this change may be attributed to the bank's increased lending activity, which grew approximately 19% in 1996.

Although the bank offers a full range of loan products, the bank's primary business focus continues to be commercial lending, particularly Small Business Administration Loans, with a secondary focus on construction lending. The bank's emphasis on these two products is reflected in its asset/loan portfolio mix. As of year-end 1996, the combination of business and construction loans represented approximately 88% of the bank's total loan portfolio.

At the previous examination the bank received a satisfactory rating for its CRA performance. Guardian State Bank continues to meet community credit needs in a manner consistent with its size and resources. Other than the bank's legal lending limit, there are no apparent factors which would impede the bank's ability to meet local credit needs.

DESCRIPTION OF *Salt Lake County*

Guardian State Bank has designated Salt Lake County, located in the Salt Lake City-Ogden UT Metropolitan Statistical Area (MSA), as its assessment area. Salt Lake County has a total of 156 tracts constituting the majority, 67 percent, of the Salt Lake City MSA. Based on the 1990 Salt Lake County median family income of $34,699, the bank's assessment area is comprised of 4 percent low income tracts, 25 percent moderate income, 50 percent middle income and 21 percent upper income. Because the assessment area makes up a significant portion of the MSA, the two geographies (Salt Lake City-Ogden MSA and Salt Lake County) share similar characteristics. For example, the median family income for the MSA is only slightly higher at $35,240. As such, much of the economic and demographic information in this report references the entire MSA because it is most current and is also sufficiently reflective of the assessment area.

As of December 1996, Salt Lake County's population was 795,340. Of the ten cities in the state of Utah cited as having the largest populations, four are located in the assessment area: Salt Lake City, West Valley City, Sandy City, and West Jordan City. Salt Lake City's population of 171,849 is more than one and a half times that of any city in the State.   The Salt Lake City MSA population base is expanding at twice the rate of the national average due to strong levels of in-migration and high birth rates; the increase in 1994 was 21 percent. The population growth rate is expected to continue to exceed the nation's for the next several years.

Employment in Salt Lake City MSA is growing at one of the fastest rates of any MSA and more than twice the rate of U.S. employment growth. The unemployment rate remains a very low 2.8 percent. This area has enjoyed over ten years of sustained growth. More recently, this growth has been attributed to the surge in business relocations and in-migration. With business costs nearly 18 percent below the national average, the Salt Lake City MSA has become a highly desirable choice for corporate relocation. Firms of all types, from manufacturers to mortgage companies, continue to stream into the metro area, generating job growth.

It is anticipated that the economy will remain one of the fastest growing in the nation over the next several years with job growth well above the national average. The recent influx of new companies has allowed the economy to diversify, shielding it from cyclical fluctuations in any one industry in the future and allowing for greater long term stability. Listed below are the major employers in the Salt Lake City MSA:

Firms	**Industry**	**Employs**
University of Utah	Education	15,000
Hill AFB	Government	7,500
Utah State University	Education	6,500
Thiokol	Manufacturing	4,000
Delta Airlines	TCPU	4,000
U.S. West Communications	TCPU	4,000

The strong in-migration has stimulated the retail industry and boosted residential and commercial construction activity. The high levels of relocating workers are putting pressure on Salt Lake City's housing market. The median price of a house is currently up 16 percent over one year ago, among the highest rate of appreciation in the U.S. The sharp rise in house prices over the past two years has resulted in an increase in the median price of a house to approximately $113,000, which equals the U.S. median price. Just one year ago, the median price of a home in the Salt Lake City MSA equaled only 86 percent of the median priced house nationwide. With per capita income in Utah currently at only 73 percent of the U.S. average, diminishing housing affordability is becoming a major constraint to further expansion of the housing market in Salt Lake City and Utah. The same concern was voiced in an interview with a housing advocate in the community. According to the community contact, the average wage paid is approximately $7.00 per hour, about $2.30 per hour short of what is necessary to afford the purchase of a home in Salt Lake County. It was also explained that land availability for residential development is quickly diminishing, leaving few opportunities for the development of much needed affordable housing units in Salt Lake County.

Due to the excessive need for affordable housing, some non-profit organizations in the community have initiated programs to build low cost single family homes. One program intends to build approximately 25 new homes annually for low-income buyers. Conventional lenders may participate in programs such as this by providing the construction financing. In addition, the state of Utah funds a housing trust fund that is also accessible to Salt Lake County residents.

Further evidence of excess demand in the housing market is reflected in rental vacancy rates, which remain below three percent. Moreover, apartment rents have risen during twelve of the last thirteen quarters. Tight rental markets caused a surge in multifamily construction, with permit issuance quadrupling last year. Multifamily permits are up 104 percent above their level at the end of 1995. Multifamily construction is expected to remain strong through 1997.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

To assess the bank's performance under the Community Reinvestment Act, examiners reviewed the bank's two major product lines identified as business loans and business purpose construction loans. In addition, because the bank has recently implemented a mortgage department, HMDA loans were also considered in the analysis. However, since HMDA loans do not represent a major loan product for the bank, less emphasis was placed on the performance of these loans. A statistical sample of loans was obtained from the originations made since the previous examination in these three loan categories. The sample was used to determine the bank's geographic distribution of loans inside and outside the bank's assessment area, the dispersion of loans in the assessment area by borrower income and business revenue, and the distribution of loans among geographies of different income levels.

In addition, examiners reviewed demographic and economic data for the assessment area, and interviewed members of the community to obtain information regarding credit needs of the community and the efforts made by the local institutions to meet those needs. As a contextual reference, a national peer group and a local peer were identified to determine the level of financial performance for such similarly situated banks.

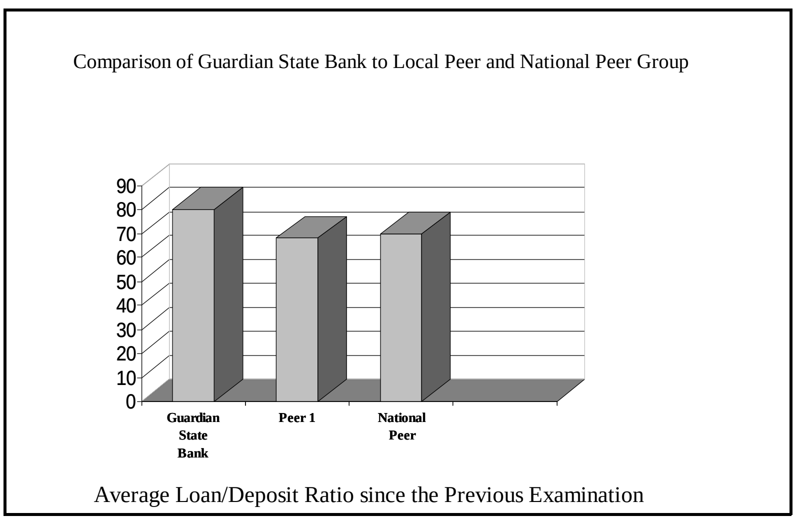
LOAN TO DEPOSIT RATIO:

In analyzing the bank's loan-to-deposit ratio, a quarterly average since the previous examination was calculated. The following chart illustrates the range of values during the period of evaluation.

Quarter Ending	Loan to Deposit Ratio
March 1996	77%
June 1996	78%
September 1996	87%
December 1996	77%
Average Loan to Deposit Ratio	80%

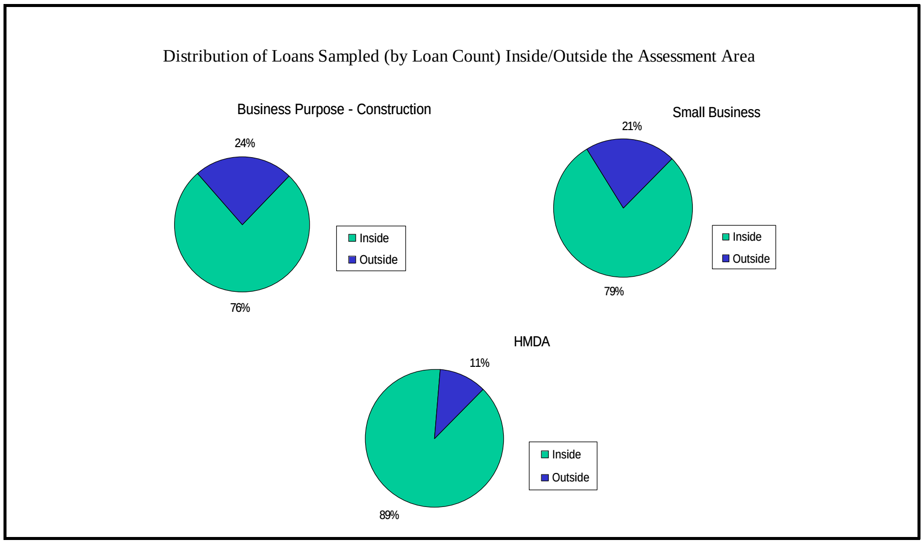
During this time, the bank's deposits fluctuated; however, loan volume continued to increase. As a result, the bank's average loan-to-deposit ratio increased slightly from 78 percent at the prior examination to approximately 80 percent.

In addition to reviewing the trends in the bank's loan-to-deposit ratio, comparisons were drawn against other local institutions, as well as the national peer average for similarly situated banks. Only one local peer was identified with generally similar asset size,



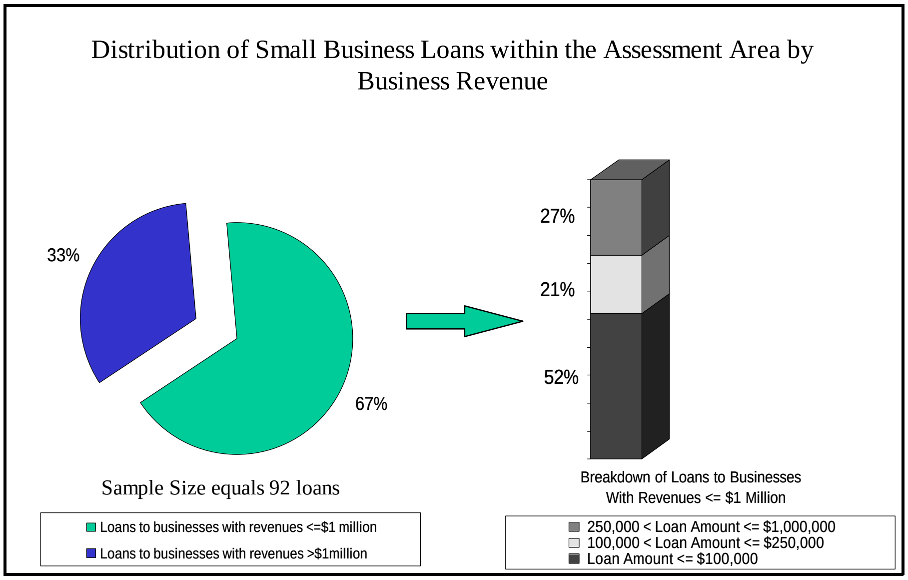
branching network and major product lines as Guardian State Bank. More consideration was given to this local peer since the same economic and lending opportunities apply to that institution and Guardian State Bank. As illustrated in the graph below, the bank's loan-to-deposit ratio compared favorably to both the local peer and the national peer group. The results of this analysis indicate the bank's exceptional efforts to reinvest its deposits in the community.

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



The bank's lending pattern within the assessment area was evaluated using a statistical sample of small business, construction and HMDA loans extended since the previous examination. During that time frame, the bank extended 99 of its 125 (79%) small business loans, 94 of its 123 (76%) construction loans and 33 of its 37 (89%) HMDA loans within its assessment area. The percentage of all dollars lent within the community was 70 percent. The relatively high percentage of lending within the assessment area was expected, given the bank's large assessment area. The bank's responsiveness in lending to individuals and businesses within its assessment area meets the standards for a satisfactory performance.

LENDING BY BORROWER INCOME AND BY BUSINESS REVENUE:



Businesses of Different Sizes

The bank's record of lending to businesses of various sizes was analyzed by determining the gross revenues of the borrowing businesses. A review of 89 business purpose construction loans revealed that only 38 percent of the loans, 39 percent by dollar volume, were made to small businesses with gross revenues of less than $1 million. However, this small percentage is misleading because of the nature of the construction business. A small developer building ten homes in one year, at the median housing value of $113,000, would easily exceed $1 million in revenues.

Revenue information for a total of 92 commercial loans was collected. Of these loans 62 (67%) totaling $12.9 million (68%) were extended to businesses with gross revenues less than $1 million. These figures indicate that a significant number of the bank's commercial loans were made to small businesses. Also indicative of the bank's commitment to lend to small businesses is its participation in the SBA program. For the second consecutive year Guardian State Bank ranked second in the number of SBA 7(a) loans extended in the state and ranked first by dollar amount.

Within the small business classification, examiners further sub-grouped the bank's lending patterns by the loan amounts, the number of loans extended under each category and the corresponding percentages. As the graph below illustrates 32 of the 62 (52%) loans to small businesses were extended in amounts under $100,000 and 13 (21%) were in amounts of $100,000 to $250,000. The concentration of loans under $250,000 coupled with the bank's performance in the SBA arena demonstrates a good record of serving the credit needs of small businesses.

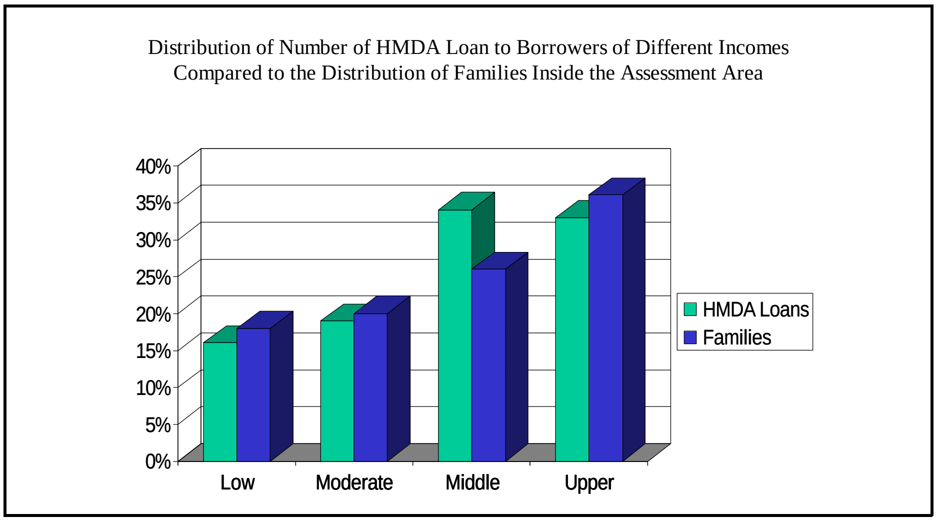
Borrowers of Different Incomes

To evaluate the bank's lending to borrowers of different income levels, examiners compared the stated gross annual incomes of the customers on the bank's 1996 HMDA LAR with the percentage of low-, moderate-, middle- and upper-income families living within the assessment area. The income level of a borrower was determined based on the HUD adjusted median family income of the Salt Lake Metropolitan Statistical Area (MSA). This income figure for 1996 was $45,500.

A total of 32 HMDA loans, totalling $1,734,000 were extended within the bank's assessment area. As depicted in the following table and graph, the number and dollar amount of these loans is in line with the distribution of low-, moderate-, middle-, and upper-income families within the assessment area.

	Percentage of Lending and Families in Assessment Area

Median Family Income $45,500	Low Income < 50% Median Family Income		Moderate Income 50-79% Median Family Income		Middle Income 80-119% Median Family Income		Upper Income ≥ 120% Median Family Income	
	#	$	#	$	#	$	#	$
HMDA Loans Extended in AA	16%	8%	19%	17%	34%	41%	31%	33%
Families in AA	18%		20%		26%		36%	



Considering the bank has just recently implemented a mortgage department, the distribution of HMDA loans among individuals of various income groups compares favorably to the demographics of the bank's community.

Moreover, two SBA loans made by the bank deserve special mention. One loan was extended for the purpose of financing an adult care facility which caters completely to low- and moderate-income individuals. The second loan was made to a preschool center located in a moderate income tract, serving primarily low- to moderate-income families. Based on the aforementioned items, the bank is adequately serving the credit needs of consumers of all income levels.

GEOGRAPHIC DISTRIBUTION OF LOANS:

The bank's geographic distribution was evaluated on the same basis as the lending performance to businesses of different sizes and borrowers of different income levels. The demographics of the community, identifying the number of low-, moderate- , middle-, and upper-income tracts, were compared to the number of small business, construction and HMDA loans extended within each of those tracts. As previously noted, the bank's assessment area consists of 156 census tracts, with 4 percent being low income, 25 percent being moderate income, 50 percent being middle income, and 21 percent upper income. The following table highlights the bank's loan distribution within the bank's assessment area.

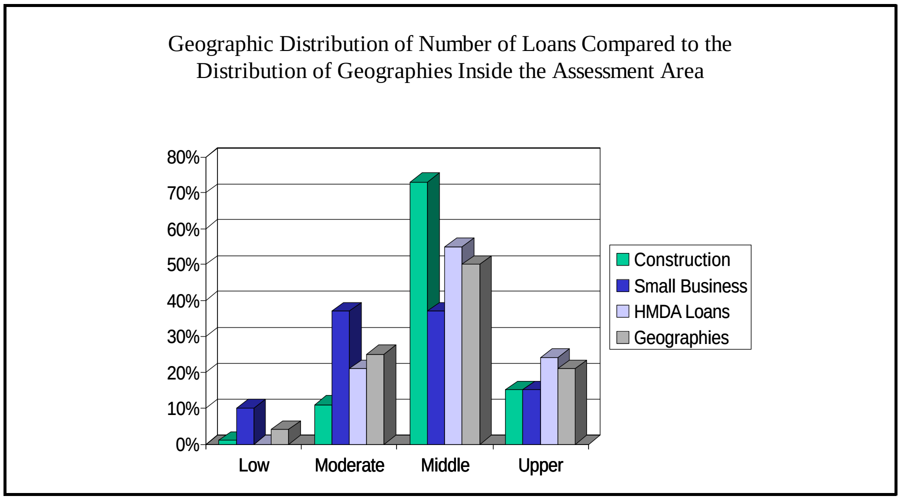
Geographic Distribution of Loans Throughout Assessment Area								
Loan Types	Low Income		Moderate Income		Middle Income		Upper Income	
	#	$	#	$	#	$	#	$
Construction	1%	2%	11%	12%	73%	63%	15%	23%
Small Business	10%	13%	37%	36%	37%	42%	15%	9%
HMDA	0%	0%	21%	23%	55%	46%	24%	31%
Tracts	4%		25%		50%		21%	

The bank's construction lending is concentrated in middle income tracts; however, this is reflective of the demographics of the community. A tour of the bank's assessment area revealed that a majority of the new construction development is occurring in middle- to upper-income tracts. The low- and moderate- income tracts have no available land for additional housing and contain primarily commercial property, leaving few opportunities for new residential construction. This observation was further confirmed by a community housing advocate. According to the community contact, there is very little new housing construction in low- and moderate- income tracts because the housing in that area is densely populated.

The bank's small business lending also reflects the demographics of the community. As previously noted, low- and moderate-income tracts are largely comprised of commercial businesses. Therefore, the high concentration of small business loans within those locations is consistent with the general composition of the community.

Finally, a review of the distribution of HMDA loans revealed an adequate penetration in geographies of different income levels. Although there is a lack of lending in low-income tracts, it may be attributed to the limited presence of 1-4 family residences in those tracts. According to 1990 census data, only one percent of the 1-4 family residences within the assessment area are in low-income census tracts. The majority (54%) of the 1-4 family housing units are located in middle-income tracts. The bank's lending pattern is comparable to the distribution of housing units in its assessment area.

The graph below depicts the bank's lending relative to the percentage of low-, moderate-, middle- and upper-income tracts within the assessment area.



RESPONSE TO COMPLAINTS:

The bank did not receive any written complaints about its CRA performance during the period under review; therefore, the institution's record of taking action in response to such complaints was not evaluated.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS AND REGULATIONS

The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations such as the Fair Housing Act and the Equal Credit Opportunity Act. While there were some violations of the Home Mortgage Disclosure Act and the Equal Credit Opportunity Act, they were technical in nature and did not have a discriminatory effect. 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 bank has on-going fair lending training for its staff and has implemented a secondary review process for declined loans to help ensure the equal treatment of all applicants. The policies, procedures and training programs developed by the bank adequately support non-discrimination in lending.