

PUBLIC DISCLOSURE

June 21, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

ARIZONA BANK

585150

Tucson, Arizona

**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 the 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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ABBREVIATIONS

Affordable Housing Program.....	AHP
Community Reinvestment Act.....	CRA
Federal Housing Administration.....	FHA
Federal Home Loan Bank	FHLB
Federal National Mortgage Association.....	FNMA
Home Mortgage Disclosure Act	HMDA
Low-Income Housing Tax Credits.....	LIHTC
Metropolitan Statistical Area	MSA
State Housing Initiatives Partnership.....	SHIP
Veterans Administration.....	VA

ROUNDING CONVENTION

Because percentages presented in tables were rounded to the nearest whole number in most cases, some columns may not total exactly 100 percent.

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 Arizona Bank prepared by the Federal Reserve Bank of San Francisco, the institution's supervisory agency, as of June 21, 1999. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

Arizona Bank's overall performance level with respect to Community Reinvestment Act (CRA) lending, investments, and services is satisfactory. Lending levels reflect an excellent responsiveness to assessment area credit needs. A preponderance of lending occurred in the bank's assessment areas, and the geographic distribution of loans reflects a good penetration throughout its markets. The bank has effectively addressed the needs of small businesses and borrowers of different income levels. A lower level of qualified community development lending is balanced by the bank's stronger direct lending levels. Qualified investment activity is adequate given the bank's resources and opportunities within the assessment areas. Additionally, the bank has engaged in various community development services that have benefited primarily low- and moderate-income individuals or families.

The following table indicates the performance level of Arizona Bank with respect to the lending, investment, and service tests.

PERFORMANCE TESTS			
Performance Levels	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		
Low Satisfactory		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.

DESCRIPTION OF INSTITUTION

Arizona Bank, headquartered in Tucson, Arizona, was, as of the date of the examination, a wholly-owned subsidiary of Compass Bancshares, Inc., a \$17.3 billion sunbelt-based multi-state bank holding company with 292 banking facilities operating in Alabama, Arizona, Florida, and Texas.¹ Compass Bancshares, Inc. acquired the bank on December 15, 1998. The bank operates 29 full-service facilities throughout the state of Arizona, 19 of which are located in either Albertson's

¹ Subsequent to the examination, Arizona Bank was merged into the organization's lead subsidiary bank, Compass Bank, Birmingham, Alabama. Thus, Arizona Bank's former operations became branches of Compass Bank.

supermarkets (17) or Super Kmart Stores (2). Arizona Bank's total assets as of December 31, 1998, were \$803.4 million.

Arizona Bank's primary lending activity during the review period was consumer lending, specifically motor vehicle loans, real estate mortgage and commercial lending. While the bank did extend mortgage loans during this review period, the lending levels diminished from 1997 to 1998. According to bank management, this was largely due to resource limitations.

Loan products offered by Arizona Bank as listed in its CRA Public File include various types of consumer loans, commercial loans, and real estate loans. The following table shows the composition of the loan portfolio as of year-end for 1996, 1997, and 1998, and illustrates the variety of credit offered by the bank as well as the decline in residential mortgage lending. The information was taken from the bank's December 31, 1998 Consolidated Reports of Condition and Income (Call Report).

COMPOSITION OF LOAN PORTFOLIO						
Loan Type	12/31/1998		12/31/1997		12/31/1996	
	\$(000s)	Percent	\$(000s)	Percent	\$(000s)	Percent
Construction and Development	\$35,632	6.6%	\$37,141	6.8%	\$29,339	6.1%
Secured by One- to Four- Family Dwellings	\$66,832	12.4%	\$96,608	17.6%	\$100,952	21.1%
Other Real Estate:						
Farmland	\$0	0.0%	\$0	0.0%	\$0	0.0%
Multifamily	\$18,720	3.5%	\$15,787	2.9%	\$13,041	2.7%
Nonfarm nonresidential	\$67,047	12.5%	\$54,432	9.9%	\$40,946	8.6%
Commercial and Industrial	\$64,457	12.0%	\$55,065	10.0%	\$33,591	7.0%
Loans to Individuals	\$284,128	52.9%	\$289,699	52.8%	\$261,000	54.5%
Agricultural Loans	\$0	0.0%	\$0	0.0%	\$0	0.0%
Total	\$536,816	100.0%	\$548,732	100.0%	\$478,869	100.0%

* This table does not include the entire loan portfolio. Specifically, it excludes loans to depository institutions, bankers acceptances, lease financing receivables, obligations of state and political subdivisions, and other loans that do not meet any other category. Contra assets are also not included in this table.

There were no legal impediments or financial constraints that would have inhibit Arizona Bank from meeting the assessment area credit needs consistent with its size and financial capacity, and the local economic climate. The bank received, at its previous CRA examination conducted by the Federal Deposit Insurance Corporation as of May 9, 1996, an "outstanding" performance rating. The previous rating was assigned prior to the effective date of the revisions to the CRA regulation. Under the previous regulation, a bank's CRA performance was evaluated based on twelve assessment factors. These assessment factors have been replaced by three performance tests: lending, investment, and service.

DESCRIPTION OF OVERALL ASSESSMENT AREAS

General Description

Arizona Bank began operations in Tucson, Arizona in May 1963. As of June 30, 1998, the bank ranked as the state's eighth largest commercial bank, with \$654 million, a 1.7 percent share of the state's total deposits. Major competitors include Bank One of Arizona, N.A, Bank of America NTSA and Wells Fargo Bank, N.A., the largest commercial banks in Arizona. Major competition in mortgage banking comes from Countrywide and Norwest mortgage companies.

A major challenge to the bank in serving its customers is the state's population dispersion and land ownership. Arizona remains one of the ten least populated states in the country. Maricopa County, where Phoenix is located, has more than 61 percent of the state's population. The state and federal governments owns one-half of the state's land, including the Grand Canyon National Park, while twenty-one Indian reservations are contained on a quarter of the state's land.

As of December 31, 1998, Arizona Bank defined eight assessment areas within the state of Arizona, which consist of eight whole or partial counties, and which include most of the leading communities in Arizona, *i.e.*, Phoenix, Tucson, Mesa, and Tempe. The defined assessment areas are consistent with the bank's capacity given its branch structure and lending strategy and conform to the technical requirements of the regulation. The eight assessment areas include the following geographies:

Tucson Assessment Area – all of Pima County
Maricopa Assessment Area – all of Maricopa County
Flagstaff Assessment Area – portions of Coconino County
Yuma Assessment Area – portions of Yuma County
Prescott–Prescott Valley Assessment Area – portions of Yavapai County
Kingman-Bullhead City Assessment Area – portions of Mohave County
Casa Grande Assessment Area – portions of Pinal County
Willcox Assessment Area – portions of Cochise County

The bank's expansion from nine branches in two assessment areas (Tucson and Willcox) as of the May 1996 examination, to 29 branches in eight assessment areas as of December 1998 is due to the expansion of banking services into retail stores.

The eight assessment areas consist of 633 census tracts or block numbering areas. Of the 633 tracts, 42 (6.6 percent) are low-income; 161 (25.4 percent) are moderate-income, 239 (37.8 percent) are middle-income, and 191 (30.2 percent) are upper-income. There are eight low-income tracts and 4 moderate-income tracts with low or no population and with very few owner-occupied housing units.²

Population Demographics and Income Statistics

The total 1990 population in the bank's assessment areas was 3,031,250. The two Metropolitan Statistical Areas (MSAs) with the largest population served by the bank remain the Phoenix-

²Census tracts with no families or less than 100 owner-occupied housing units.

Mesa, MSA (#6200) and Tucson, AZ MSA (#8520). Approximately 96 percent of the state's population live in these MSAs. Of the total population, 74 percent were age 18 and over, and 13 percent were age 65 and over. A total of 788,889 families resided in the bank's assessment areas. The following chart shows the percentage of families by tract distribution.

DISTRIBUTION OF FAMILIES BY TRACT INCOME LEVEL		
TRACT INCOME LEVEL	TOTAL FAMILIES	PERCENTAGE OF FAMILIES
Low-Income	27,446	3.5%
Moderate-Income	186,377	23.6%
Middle-Income	318,486	40.4%
Upper-Income	256,580	32.5%
TOTAL	788,889	100.0%

Due to the high percentage of families in middle-income census tracts (40 percent, it would be expected that a larger percentage of loans would be originated in these areas.

INSTITUTION (Continued)

DESCRIPTION OF OVERALL ASSESSMENT AREAS (Continued)

The percentage of families by income was 20 percent low-income, 18 percent moderate-income, 23 percent middle-income, and 39 percent upper-income. Nearly 10 percent, or 76,788 families, live below the poverty level. The greatest number of families below the poverty level reside in moderate- and middle-income tracts. Forty-four percent of families below the poverty level resided in moderate-income tracts, and 30 percent lived in middle-income tracts. Low-income tracts, however, had the highest concentration of families below the poverty level. Of the 27,446 total families in low-income tracts, 11,615 (42 percent) live below the poverty level. With such a high concentration of families below the poverty level, a lower number of loans would be expected in these tracts.

Arizona is experiencing sustained economic and employment growth. The state ranks fourth nationally with a 3.4 percent job growth rate, well above the national average of 2.2 percent. Phoenix is one of the nations most rapidly expanding metropolitan areas with job growth of 5.6 percent. Tucson is also experiencing job growth above the national average, but substantially below Phoenix, adding jobs at a 2.6 percent pace.

Arizona's manufacturing industry has a much higher component of high-tech production than the national average. Defense-related activity accounts for 20 percent of this industry. Arizona's pro-business tax legislation and regulatory environment, combined with a relatively low-cost workforce, attracts many firms. Arizona has experienced a relatively stable real estate market; however, this has not been the case for affordable housing. The increasing number of people moving into the state and the growing economy have resulted in rising housing costs including rents, and reduced vacancy rates. The rapid escalation in home values and rental rates is reducing the housing stock available for lower income persons.

Housing Statistics

Housing units in the bank's aggregated assessment areas totaled 1,361,871. Fifty-three percent are owner-occupied units, 32 percent are rental units, and 15 percent are vacant units. Housing throughout the assessment areas consisted primarily of one- to four-family dwellings, totaling 881,321, followed by multifamily dwellings (five or more units) totaling 305,504 and mobile homes totaling 159,095. Arizona's dry climate and mild storm patterns make mobile homes an attractive and affordable alternative to single family detached housing.

INSTITUTION (Continued)

DESCRIPTION OF OVERALL ASSESSMENT AREAS (Continued)

The following table depicts the distribution of housing units by tract income level for owner-occupied, rental, and vacant units.

DISTRIBUTION OF HOUSING UNITS				
CENSUS TRACT INCOME LEVEL	TOTAL UNITS	PERCENTAGE OF OWNER- OCCUPIED UNITS TO TOTAL UNITS³	PERCENTAGE OF RENTAL UNITS TO TOTAL UNITS	PERCENTAGE OF VACANT UNITS TO TOTAL UNITS
Low-Income	52,307	30	53	17
Moderate-Income	370,737	39	41	20
Middle-Income	550,558	56	30	15
Upper-Income	388,269	67	22	11
TOTAL	1,361,871	54	32	15

Middle- and upper-income tracts had the greatest percentage of owner-occupied units. Because of the high percentage of rental units in low- and moderate-income tracts fewer opportunities exist for mortgage originations. The percentage of vacant units drops slightly from low- to upper-income tracts.

Using 1990 census data as an historical source for ranking the assessment areas' home values, the Flagstaff assessment area had the highest median home price at \$87,760, followed by the Maricopa assessment area at \$84,717, with the Prescott-Prescott Valley assessment area at \$82,678. The Tucson assessment area ranked fourth at \$76,467, followed by the Kingman-Bullhead City assessment area at \$71,659 and the Yuma assessment area at \$64,447. The Casa Grande and Willcox assessment areas had the lowest median home prices at \$58,290 and \$47,922 respectively. It must be reiterated, however, that the Maricopa and Tucson assessment areas include entire counties, while the other assessment areas consist only of partial counties.

Recent median home prices for the assessment areas are only available for the Tucson and Phoenix-Mesa MSAs. According to the National Association of Realtors, as of March 1999, the 1998 projected median home price in the Phoenix-Mesa MSA was \$120,200. Tucson, in comparison, had a lower median home price of \$112,600.

³ The percentage is based on the total number of each unit type divided by the total number of housing units in each census tract level.

INSTITUTION (Continued)

DESCRIPTION OF OVERALL ASSESSMENT AREAS (Continued)

Employment Statistics

Using information from the U.S. Bureau of Labor Statistics, current unemployment rates for the eight assessment areas are shown in the following chart.

UNEMPLOYMENT TRENDS FOR THE MONTH OF MAY ⁴			
ASSESSMENT AREAS	1999	1998	1997
Tucson	2.7	2.6	3.1
Maricopa	3.0	2.4	2.9
Flagstaff	5.8	6.3	7.3
Yuma	33.9	34.5	28.3
Prescott – Prescott Valley	3.4	3.3	3.9
Kingman – Bullhead City	4.8	3.9	4.8
Casa Grande	4.0	3.8	4.7
Willcox	6.3	6.9	8.4
State of Arizona	4.5	4.1	4.5

The unemployment rates in the bank’s assessment areas have remained stable or declined over the 24-month period. The major counties of Pima and Maricopa, which include the cities of Tucson and Phoenix, respectively, have unemployment rates well below the state average, reflecting the national trend of economic growth over this period. The exclusively agricultural base of Yuma County does not yield comparable data as the above statistics are not seasonally adjusted and Arizona’s growing season occurs during the winter months.

Key employment sectors, as of May 1999, are as follows:

Type of Industry	Employment (000s)	% Change 98 to 99
Services	647.0	4.4
Trade	501.9	3.2
Government	327.9	2.2
Manufacturing	212.2	1.3
Construction	124.9	-1.0

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Preface

This section presents the facts and analysis used to evaluate the lending, investment, and service performance of the bank for the overall assessment area. It provides a comprehensive view of how the bank is addressing the banking needs in its assessment areas. This section is followed by an analysis of the bank’s lending, investment, and service performance in the

⁴ Not seasonally adjusted.

Tucson assessment area where the bank has its largest and longest presence in terms of its branches and lending activity. For the remaining seven assessment areas, limited scope reviews were performed to determine if the bank's performance in these areas was consistent with the overall performance.

Basis of Evaluating Statistical Data

Most of the charts compare lending activity under the lending test and branch distribution under the service test with demographic percentages. This comparison facilitates the evaluation of whether the bank is performing above, at, or below standards.

For the overall institution of Arizona Bank, the number and dollar amount of consumer loans and small business loans exceeded the number and dollar amount of Home Mortgage Disclosure Act (HMDA) reportable loans for the review period. However, given that the preponderance of the consumer loans were indirect motor vehicle loans coupled with identified assessment area credit needs, more weight was given to HMDA and small business loans in determining the lending test rating for the bank.

LENDING TEST

The component rating for the lending test is determined by evaluating the following criteria: (1) the number and amount of the bank's home mortgage, small business, and consumer loans in the bank's assessment area; (2) the geographic distribution of the bank's home mortgage, small business, and consumer loans; (3) the distribution in the bank's assessment area of the bank's home mortgage, small business, and consumer loans to borrowers of various income levels and businesses of different revenue sizes; (4) the complexity, dollar amount, innovativeness, and number of community development loans; and (5) the bank's use of innovative or flexible lending practices.

Arizona Bank's overall performance under the lending test is high satisfactory. The bank's volume of small business, consumer, and residential real estate lending and an average loan-to-deposit ratio of 84 percent reflect an excellent responsiveness to credit needs consistent with capacity. The distribution of loans among geographies, borrowers, and businesses of different income levels indicates that the bank is addressing credit needs in a reasonable manner. Although the bank's community development lending throughout its assessment areas is low, the use of innovative and flexible lending practices to address the affordable housing challenges in the assessment areas contributed to the overall high satisfactory performance. Conversely, the bank demonstrated a low level of community development lending throughout its assessment areas.

Lending Activity

Loans reportable under HMDA, consumer and small business loans were used for the lending analysis. For purposes of CRA, HMDA loans are those loans as defined in Regulation C (12 C.F.R. Part 203). These loan categories are home purchase, home refinance, multifamily, and home improvement loans. Small business loans are loans with original amounts of \$1 million or less. Consumer loans are those loans to individuals for household, family, or other personal

expenditures. Unless noted otherwise, the loan data is from January 1, 1997, through December 31, 1998.⁵

Lending levels reflect an excellent responsiveness to assessment area credit needs. Arizona Bank offers a variety of loan products to meet the credit needs of its assessment areas, including: consumer loans, conventional fixed, adjustable rate and VA/FHA government-guaranteed mortgage loans, residential construction and land development loans, commercial construction, commercial lines of credit and term loans, and Small Business Administration (SBA) 504 and 7(a) government-guaranteed small business loans. According to the Call Report data, lending levels were as follows:

LENDING LEVEL TRENDS					
	12-31-98	6-30-98	12-31-97	6-30-97	12-30-96
Net Loans & Leases (\$000s)	559,625	563,174	557,973	520,219	478,899
Percentage Change	-6%	+9%	+7.3%	+8.6%	

While a slight decrease was noted as of year-end 1998, the lending levels from year-end 1996 to 1998 increased by 16.8 percent. Deposits for the same period increased by 25.9 percent. Arizona Bank's average loan-to-deposit ratio for the eight quarters ending December 31, 1998, was 84.1 percent. The bank's net loan-to-deposit ratio ranged from 87.3 percent on December 31, 1996, to 80.5 percent on December 31, 1998.

The average net loan-to-deposit ratios of local peer banks for the same eight quarters ranged from 68.0 percent to 74.4 percent, while the state average stood at 69.6 percent. Arizona Bank's average loan-to-deposit ratio suggests that the bank is actively lending when compared to both local and state peer data.

Assessment Area Concentration

Arizona Bank's overall record of lending shows that a high percentage of loans were extended within its assessment areas. The table below shows, by loan type, the number and percentage of loans reviewed that were located inside and outside of the bank's assessment areas by number of loans and dollar amount.

LENDING INSIDE AND OUTSIDE ASSESSMENT AREAS										
Loan Type	IN				OUT				TOTALS	
	Number	Percent	\$ (000s)	Percent	Number	Percent	\$ (000s)	Percent	Number	\$ (000s)
Small Business	773	99.6%	\$89,992	99.6%	3	0.4%	\$400	0.4%	776	\$90,392
Residential Loans	472	99.6%	\$46,843	99.8%	2	0.4%	\$95	0.2%	474	\$46,938
Consumer Loans	6,688	72.8%	\$91,564	67.9%	2,498	27.2%	\$43,354	32.1%	9,186	\$134,918
TOTAL	7,933	76.0%	\$228,399	83.9%	2,503	24.0%	\$43,849	16.1%	10,436	\$272,248

The loan type with the largest percentage of loans outside of the bank's assessment areas is consumer loans. The out of area lending is due to the high percentage (92 percent) of indirect

⁵ Consumer loan data included only 1998

motor vehicle loans in the consumer loan data. By number of loans, a substantial majority (99.6 percent) of both HMDA and small business loans, and a high percentage (72.8 percent) of consumer loans are within the bank's assessment areas. A substantially similar percentage of lending was noted for HMDA and small business loans by dollar amount, while consumer loans were generally similar by dollar amount. The lending levels address the critical credit needs identified by community contacts.

Geographic Distribution of Loans

The geographic distribution of loans by census tract income level reflects good penetration throughout the different geographies within the assessment areas. Factors taken into consideration in reviewing the bank's performance in this area include characteristics such as population demographics, poverty levels, and the percentage of owner-occupied housing units located within tracts by income level.

The following table shows the geographic distribution of HMDA loans for 1997 and 1998 combined. Selected demographic information about the tracts is included as a basis for comparison.

DISTRIBUTION OF HMDA LOANS BY TRACT INCOME LEVEL										
CENSUS TRACT INCOME LEVEL	LOAN TYPE								% OF FAMILIES	% OF OWNER-OCCUPIED UNITS
	Conventional Home Purchase		FHA/VA		Home Improvement		Refinancing			
	Number	%	Number	%	Number	%	Number	%		
Low-Income (6.6%)	17	8.2	0	0	5	5.2	6	4.3	3.5	2.2
Moderate-Income (25.4%)	51	24.5	1	50.0	15	15.6	16	11.4	23.6	19.9
Middle-Income (37.8%)	64	30.8	0	0	33	34.4	40	28.6	40.4	42.2
Upper-Income (30.2%)	76	36.5	1	50.0	43	44.8	78	55.7	32.5	35.8
TOTAL	208	100	2	100	96	100	140	100	100	100

The bank performed well in extending purchase money mortgages in low- and moderate-income tracts, exceeding both the percentages of families and owner-occupied units by census tract level. In addition, home improvement loans were extended in low-income census tracts at a level that exceeded the demographics, while moderate-income tracts were somewhat less. Both these types of credits were identified by community contacts as critical credit needs given the affordability challenges and high percentage of substandard housing in the assessment areas.

Although the number of government-guaranteed mortgage loans extended is very limited, examiners noted that the bank has made use of its affordable housing loan program to meet the credit needs in low- and moderate-income geographies.

The following chart shows the geographic distribution for all HMDA loans combined.

GEOGRAPHIC DISTRIBUTION OF HMDA LOANS						
CENSUS TRACT INCOME LEVEL	LOANS		OWNER-OCCUPIED UNITS		FAMILIES	
	Number	Percentage	Number	Percentage	Number	Percentage
Low-Income (6.6%)	34	7.2%	15,814	2.2%	27,446	3.5%
Moderate-Income(25.4%)	91	19.3%	145,093	19.9%	186,377	23.6%
Middle-Income (37.8%)	145	30.7%	307,721	42.2%	318,486	40.4%
Upper-Income (30.2%)	202	42.8%	261,220	35.8%	256,580	32.5%
TOTAL	472	100%	729,848	100%	788,889	100%

Because a small percentage of the owner-occupied housing units in the assessment areas are in low-income tracts and the smallest percentage of families reside in these tracts, few HMDA originations is reasonable. Of the 42 low-income tracts, eight (19 percent) have few, if any, owner-occupied housing units or a small number of families residing in these tracts. In addition, 42.3 percent of the families in low-income tracts live below the poverty level. Given that moderate-income tracts have 19.9 percent of the owner-occupied housing units and 23.6 percent of the families in the assessment areas, the percentage of loans originated in these tracts at 19.3 percent is good. The lower percentage of loans in moderate-income tracts when compared with the area demographics can be partially attributable to the fact that 18.1 percent of families in moderate-income tracts live below the poverty level. Furthermore, a large percentage of lending is expected in middle- and upper-income tracts because the majority of the owner-occupied units and families are located in these tracts.

The following table shows the geographic distribution of small business loans. Selected demographic information about the tracts is included as a basis for comparison. Arizona Bank's percentage of small business lending in low- and moderate-income tracts exceeds the percentage of tracts in the overall institution assessment area.

GEOGRAPHIC DISTRIBUTION OF SMALL BUSINESS LOANS				
CENSUS TRACT INCOME LEVEL	LOANS		TRACTS	
	Number	Percentage	Number	Percentage
Low-Income	61	7.9%	42	6.6%
Moderate-Income	224	29.0%	161	25.4%
Middle-Income	265	34.3%	239	37.8%
Upper-Income	223	28.8%	191	30.2%
TOTAL	773	100%	633	100%

The following table compares the geographic distribution of small business loans of Arizona Bank to the aggregate small business lending data and the distribution of small businesses by income geography. Selected demographic information about the tracts is also included as a basis for comparison. The 1997 aggregate data include all financial entities reporting CRA small business loans in the institution's assessment areas. The percentages in the table exclude loans with the tract not reported. Aggregate small business lending data for 1998 was not available as of the date of the examination.

ARIZONA BANK VERSUS AGGREGATE SMALL BUSINESS LENDING					
CENSUS TRACT INCOME LEVEL	ARIZONA BANK		1997 AGGREGATE	TRACTS	BUSINESSES
	Number	Percentage	Percentage	Percentage	Percentage
Low-Income (6.6%)	61	7.9%	7.1%	6.6%	5.2%
Moderate-Income (25.4%)	224	29.0%	24.3%	25.4%	23.6%
Middle-Income (37.8%)	265	34.3%	34.5%	37.8%	37.3%
Upper-Income (30.2%)	223	28.8%	34.1%	30.2%	34.0%
TOTAL	773	100%	100%	100%	100%

Particular strength is noted in the bank's small business lending profile. The bank's lending exhibits an excellent record of serving the credit needs of small businesses throughout the various income geographies relative to the aggregate lending and the percentage of small businesses within the different geographies, particularly low- and moderate-income tracts.

The following table shows the geographic distribution of consumer loans. Selected demographic information about the tracts is included as a basis for comparison.

GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS				
CENSUS TRACT INCOME LEVEL	LOANS		TRACTS	
	Number	Percentage	Number	Percentage
Low-Income (6.6%)	128	1.9%	42	6.6%
Moderate-Income (25.4%)	1,470	22.0%	161	25.4%
Middle-Income (37.8%)	2,617	39.1%	239	37.8%
Upper-Income (30.2%)	2,473	37.0%	191	30.2%
TOTAL	6,688	100%	633	100%

Although Arizona Bank's percentage of consumer lending to low- and moderate-income tracts is considerably below the percentage of low-income tracts and somewhat less in moderate-income tracts in the overall institution assessment area, the consumer profile is considered adequate given several factors noted by examiners. First, the family poverty levels of 15.2 and 43.7 percent in low- and moderate-income census tracts contribute to the lending disparities noted in these census tracts. In addition, community contacts identified housing credit as the most critical credit need in the assessment area for both income categories, especially low-income, and Arizona Bank is making this type of credit available to low-income areas.

Distribution of Loans by Borrower's Income and Revenue Sizes of Businesses

Overall, Arizona Bank's lending distribution exhibits a good penetration among borrowers of different income levels and businesses of different sizes.

The following table shows the percentage distribution of the bank's HMDA loans by the income level of the borrowers. The percentages in the table exclude loans for which the borrower's income was not available.

DISTRIBUTION OF HMDA LOANS BY BORROWER INCOME LEVEL										
BORROWER INCOME LEVEL	LOAN TYPE								TOTAL FAMILIES	
	Conventional Home Purchase		FHA/VA		Home Improvement		Refinancing			
	Number	%	Number	%	Number	%	Number	%	Number	%
Low-Income	48	23.1%	1	50.0%	12	12.5%	10	7.1%	154,222	19.5%
Moderate-Income	54	26.0%	0	0%	21	21.9%	25	17.9%	142,771	18.1%
Middle-Income	25	12.0%	0	0%	28	29.2%	26	18.6%	180,824	22.9%
Upper-Income	69	33.2%	0	0%	30	31.3%	75	53.6%	311,072	39.4%
TOTAL	196	100%	1	100%	91	100%	136	100%	787,536	100%

For HMDA loans, the bank has a very good record of lending to low- and moderate-income borrowers. One major factor affecting the bank's ability to lend to low- and moderate-income borrowers is the affordability of homes. Most low-income families in the assessment areas cannot afford to purchase a home given the value of most homes in the assessment areas. Moderate-income families also face affordability challenges, but to a lesser degree based on the median housing prices previously discussed under Housing Statistics on page 5.

As noted previously in the discussion of the overall assessment area lending performance, the bank has made use of its affordable housing loan program to meet the credit needs of these borrowers (see *Innovative and Flexible Lending Practices* section on page 14 for further discussion).

The following table shows the percentages of HMDA loans to borrowers of different income levels for Arizona Bank compared to market performance (i.e., all 1997 HMDA reporters that had loans in the bank's assessment areas) and the distribution of families by income category. Only 1997 aggregate market lending data is available for comparison at the time of the examination. The percentages in the table exclude loans with the income not available.

MARKET COMPARISON OF HMDA LOANS			
BORROWER INCOME LEVEL	PERCENTAGE OF TOTAL FAMILIES	PERCENTAGE OF LOANS	
		ARIZONA BANK	AGGREGATE

Low-Income	19.5%	15.0%	5.5%
Moderate-Income	18.1%	21.2%	15.2%
Middle-Income	22.9%	16.7%	21.0%
Upper-Income	39.4%	36.9%	36.2%
TOTAL	100%	100%	100%

Arizona Bank compares very favorably to the aggregate in HMDA lending, particularly with respect to low- and moderate-income borrowers. The bank targets low- and moderate-income borrowers with its affordable housing loan program. Arizona Bank did not have credit products targeted to other income sectors of its market. Performance in the other borrower income categories was reasonable given market demand and competition.

Commercial and industrial loans, including nonfarm nonresidential real estate loans, accounted for approximately 23.5 percent of the bank's loan portfolio on December 31, 1998. The following table depicts by loan size, the number and dollar volume of loans originated by Arizona Bank that are considered small business loans. By number of loans, 74.6 percent of small business loans were in amounts of \$100,000 or less, demonstrating the bank's willingness to originate smaller dollar commercial loans. The demographics of the assessment areas and information from outside contacts identify credit in amounts of less than \$100,000 as the most significant small business credit need.

SMALL BUSINESS LOAN ORIGINATIONS BY LOAN SIZE				
LOAN AMOUNT	NUMBER OF LOANS	PERCENTAGE OF LOANS	DOLLARS (\$000s)	PERCENTAGE OF DOLLARS
\$100,000 or less	575	74.6%	\$26,772	29.8%
\$100,001 - \$250,000	108	14%	\$20,146	22.4%
\$250,001 - \$1 million	88	11.4%	\$43,072	47.9%
TOTAL	771	100%	\$89,990	100%

There is also a good penetration of loans to businesses of different sizes. Of small business loans with revenue information reported, 54.5 percent by number and 36.4 percent by dollar were extended to businesses with revenues of \$1 million or less, exhibiting a good responsiveness to the credit needs of small businesses when considering the percentage of small businesses in the market and local competitive factors.

The following table shows the percentages of consumer loans to borrowers of different income levels for Arizona Bank compared to distribution of families by income category. The percentages in the table exclude loans with the income not available.

DISTRIBUTION OF CONSUMER LOANS BY BORROWER INCOME BORROWER INCOME		
BORROWER INCOME LEVEL	PERCENTAGE OF TOTAL FAMILIES	PERCENTAGE OF LOANS ARIZONA BANK

Low-Income	19.5%	15.1%
Moderate-Income	18.1%	25.1%
Middle-Income	22.9%	28.3%
Upper-Income	39.4%	31.6%
TOTAL	100%	100%

The bank's consumer loan distribution by borrower income demonstrates a good penetration when considered in light of assessment area characteristics relating to family poverty levels and identified credit needs as previously discussed.

Community Development Lending

Overall, Arizona Bank makes an adequate level of qualified community development loans relative to assessment area needs. The bank pursues direct community development lending and, during the review period, extended 15 loans totaling \$1.3 million. These loans facilitated the provision of 19 affordable housing units, as well as supported other non-profit entities that provide community services to low- and moderate-income individuals and families. All of the community development loans were in the Tucson assessment area where Arizona Bank is most established.

Use of Innovative or Flexible Lending Practices

Arizona Bank makes limited use of innovative and flexible lending practices in serving assessment area credit needs. In 1995, the bank introduced its *Community Home Ownership Program*, an affordable housing loan program designed for the low- and moderate-income first-time homebuyer. The key features of this program are a three percent down payment requirement, flexible underwriting, reduced closing costs, and limited annual rate adjustments. Several adjustable-rate mortgages are offered under this program. This affordable housing program is comparable to those offered by similarly situated lenders, which provide low down payment requirements, reduced loan costs and other features especially beneficial to low- and moderate-income applicants. The bank originated 86 affordable housing loans under this program in 1997, with an additional 17 extended in 1998, totaling slightly over \$5.5 million. Arizona Bank has employed this affordable housing program in conjunction with grants awarded by the FHLB to various non-profit organizations, in which Arizona Bank acted as the shareholder/applicant.

During the review period, Arizona Bank also made a limited number of loans under the SBA 7(a) and 504 programs, which assist small business owners with their financing needs. The bank extended 17 loans aggregating approximately \$2.2 million.

Although Arizona Bank made limited use of innovative or flexible lending programs, the products offered coupled with its conventional loans have enabled a good response to the credit needs of the low and moderate income sectors based on the geographic distribution of loans and the amount of credit to such borrowers.

INVESTMENT TEST

The component rating for the investment test is determined by evaluating the following criteria: (1) the dollar amount of qualified investments; (2) the innovativeness or complexity of qualified investments; (3) the responsiveness of qualified investments to credit and community development needs; and (4) the degree to which the qualified investments are not routinely provided by private investors.

Arizona Bank's performance under the investment test is low satisfactory based upon the level and nature of community investment and grant activity, particularly as it relates to the level of responsiveness to the needs in the assessment area.

Volume of Qualified Investments

The bank made an adequate level of qualified community development investments and grants. The bank's overall level of qualified investments totaled \$12.1 million, or 1.5 percent of total assets. According to bank management, the bank's total investment portfolio as of December 31, 1998, was approximately \$161.2 million. With the exception of an investment of \$12,500 in a local CDC serving small businesses, these qualified investments were solely comprised of school improvement bonds for school districts primarily serving low- to moderate-income families. All of the investments benefited specific assessment areas, but varied widely in dollar volume. The approximate dollar amount in each assessment area was as follows:

Tucson Assessment Area – \$2.2 million
Maricopa Assessment Area – \$6.3 million
Flagstaff Assessment Area – no qualified investments
Yuma Assessment Area – \$2.5 million
Prescott–Prescott Valley Assessment Area – no qualified investments
Kingman-Bullhead City Assessment Area – \$850,000
Casa Grande Assessment Area – \$215,000
Willcox Assessment Area – no qualified investments

In addition, the bank extended approximately \$158,000 in qualified grants in support of community development services, primarily to organizations serving the Tucson assessment area.

Based on the bank's deposit market share for each assessment area, it is expected that the largest percentage of grants and contributions would be in the Tucson assessment area. Deposits in Tucson represent 93.5 percent of total deposits as of June 30, 1998.

Use of Innovative or Complex Investments

The bank has not used innovative or complex investments to support community development initiatives. Nevertheless, the investments funded do address acknowledged credit needs in the bank's assessment areas.

Responsiveness to Credit and Community Development Needs

Based on an evaluation of the performance context, area demographics, and contacts made within the community, the bank's investments exhibit adequate responsiveness to credit and community development needs in the assessment areas. The vast majority of the bank's qualified investments were responsive to educational needs of low- and moderate-income individuals. While the bank has made an adequate volume of investments, the bank has not taken a leadership role in community development projects or undertaking investments that respond to housing, and small business development needs.

SERVICE TEST

The component rating for the service test is determined by evaluating several factors concerning the bank's provision of retail banking and community development services. The component rating for the service test is based on the following criteria: (1) the current distribution of the bank's branches among low-, moderate-, middle-, and upper-income geographies; (2) in the context of the current distribution of the bank's branches, the bank's record of opening and closing branches; (3) the availability and effectiveness of alternative systems for delivering retail banking services; (4) the range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies; (5) the extent to which the bank provides community development services; and (6) the innovativeness and responsiveness of community development services.

Based on its provision of retail and community development services, the bank's overall performance under the service test is low satisfactory.

Accessibility of Delivery Services

The bank's delivery systems are reasonably accessible to essentially all portions of the bank's assessment areas. An analysis of the distribution of the bank's branches was completed comparing the locations of all 29 branches in the assessment areas to the percentage of families residing in each census tract type within the assessment areas. The table below shows the distribution of branches and families.

GEOGRAPHIC DISTRIBUTION OF BRANCHES AND FAMILIES			
CENSUS TRACT INCOME LEVEL	BRANCH DISTRIBUTION		PERCENTAGE OF TOTAL FAMILIES
	Number	Percentage	
Low-Income	1	3.4%	3.5%
Moderate-Income	3	10.3%	23.5%
Middle-Income	17	58.7%	40.4%
Upper-Income	8	27.6%	32.6%
TOTAL	29	100%	100%

The percentage of branches for the bank in moderate-income tracts is notably different from the percentage of total families in these tracts. However, a review of branch locations indicates that

several branches located in middle- and upper-income tracts areas are contiguous to low- or moderate-income tracts. Thus, as a whole, the branch delivery system of the bank is reasonably accessible to low-and moderate-income families.

Changes in Branch Locations

Arizona Bank's record of opening and closing branches has not adversely affected the accessibility of its delivery systems. Since the previous examination the bank has opened twenty branches and has not closed any facilities. Of the recently opened branches, two were in a moderate-income tract, twelve were in middle-income tracts, and six were in upper-income tracts.

Arizona Bank has adopted branch-closing procedures that are in compliance with the branch closing requirements set forth in section 42 of the Federal Deposit Insurance Corporation Improvement Act (12 U.S.C. 1831r-1).

Reasonableness of Business Hours and Services in Meeting Assessment Area(s) Needs

With the exception of one office, the newly established branches are located in Albertson's supermarkets (17) or Super Kmart stores (2) and provide the bank's customers with Saturday banking hours. None of the stand-alone offices of the bank provides Saturday banking. Consequently, 89 percent of the offices providing Saturday hours are located in middle- and upper-income census tracts. There was no definitive evidence that the variance in hours of operation had an impact on the accessibility to banking services in low- and moderate-income areas. These differences resulted from the strategy to open branches in these retail facilities that lend themselves to heavy Saturday customer traffic.

In addition to branches, the bank's service delivery systems include ATMs, telephone banking, small business customer courier services, and bank-by-mail. These service delivery systems are accessible to census tracts and individuals of different income levels. The range of branch services available to all census tracts is similar throughout the assessment areas. The consistent availability of ATMs, extended hours and Saturday banking hours across tracts is considered adequate. The bank's approach to increasing the availability of services throughout its assessment areas has primarily been through the use of traditional methods.

Community Development Services

Arizona Bank provides a limited level of community development services to CRA-qualified organizations. All of the qualified services were in the Tucson assessment area. The overall volume, particularly with respect to performance in individual assessment areas is limited relative to capacity and level of activity in the different assessment areas. Employees participate on boards of directors and finance and loan committees, as well as provide management and other technical assistance to community development organizations. Overall, the bank provided 28 qualified community development services to organizations that serve low- and moderate-income families and individuals or that promote the growth and success of small businesses within the assessment areas.

Compliance with Antidiscrimination Laws

Arizona Bank
Tucson, Arizona
June 21, 1999

RSSD No. 585150

No violations of the substantive provisions of anti-discrimination laws and regulations were identified at this examination. Arizona Bank has developed policies, procedures and training to ensure effective implementation of non-discriminatory lending practices.

<p style="text-align: center;">METROPOLITAN AREAS REVIEWED USING EXAMINATION PROCEDURES - TUCSON</p>

DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE TUCSON ASSESSMENT AREA

The Tucson assessment area consists of Pima County. Arizona Bank began its operations in 1963 in Tucson. As of December 31, 1998, Arizona Bank operated 17 branches and 21 ATMs throughout the Tucson assessment area. Deposits as of June 30, 1998 in the Tucson assessment area totaled \$611 million representing 93 percent of total deposits of Arizona Bank. Competition among financial entities in this market is strong. On June 30, 1998, there were 16 commercial banks and savings institutions with a total of 157 branches within the assessment area. Bank One, Arizona, N.A. had the most branches with 34, followed by Wells Fargo Bank, N.A. with 30 and Bank of America NTSA with 29. Arizona Bank had \$612 million in deposits in Pima County representing a market share of 10.2 percent compared to Bank One, Arizona, N.A. with a market share of 26.8 percent, Wells Fargo Bank, N.A. at 11.9 percent, and Bank of America NTSA at 20.9 percent.

PERFORMANCE CONTEXT FOR THE TUCSON ASSESSMENT AREA

The following table shows selected demographic characteristics for the Tucson assessment area in comparison to demographics for all the bank's assessment areas combined.

Arizona Bank
Tucson, Arizona
June 21, 1999

RSSD No. 585150

Insert Chart Here Tucson Assessment Area

**METROPOLITAN AREAS REVIEWED USING EXAMINATION PROCEDURES -
TUCSON (Continued)**

Pima County measures 9,184 square miles and consists of 115 contiguous census tracts.

Illustrated in the table below is the distribution of the 115 census tracts with the population and the families by income level based on 1990 census data:

	Census Tracts		Population		Families by Tract Categories		Families by Income Level	
	#	%	#	%	#	%	#	%
Low	10	8.7	35,739	5.4	7,487	4.4	35,081	20.6
Moderate	34	29.6	188,272	28.2	42,126	24.7	30,298	17.7
Middle	40	34.8	234,508	35.2	62,418	36.6	38,189	22.4
Upper	31	27.0	208,361	31.2	58,678	34.3	67,141	39.3
Total	115	100.0	666,880	100.0	170,709	100.0	170,709	100.0

While middle- and upper-income families are predominant in the assessment area, low- and moderate-income families continue to constitute over 38 percent of all families, comparable to the percentage of the upper-income segment. Of the 170,709 families in the assessment area, 12 percent live below the poverty level. The geographic distribution of families among the four income categories of census tracts indicates that the majority of the families in the assessment area live in the moderate, middle and upper-income tracts.

Included in the Tucson assessment area are the San Xavier, Pascua Yaqui and Tohono O'odham Indian Reservations, which occupy 42.1 percent of the land in Pima County. The state of Arizona owns another 14.9 percent and the U.S. Forest Service and Bureau of Land Management own 12.1 percent of the land in the county. Only 13.8 percent of the land in the Tucson assessment area is owned by individuals or corporations.⁶

The Pascua Yaqui Indian Village is located northwest of downtown Tucson and enveloped by the city. Both the San Xavier Indian Reservation (south of South Tucson) and the Tohono O'odham Indian Reservation (east of Tucson running from the Mexican border on the south, north into neighboring Pinal county) are sovereign nations within the bank's assessment area. The Pascua Yaqui and San Xavier communities lie in close proximity to the branch network of the bank.

⁶ Source: Arizona Department of Commerce, Profile: Pima County, Arizona

**METROPOLITAN AREAS REVIEWED USING EXAMINATION PROCEDURES -
TUCSON (Continued)**

Pima County has two designated enterprise zones: one encompassing South Tucson and part of the city of Tucson and the other in an unincorporated portion of the county just southwest of Tucson.

Tucson, the second largest city in the state, has experienced a 13 percent increase in population from 1990 through 1997. Annual population growth peaked in 1995 at 2.9 percent growth with steady 2.1 to 2.2 percent growth in prior and subsequent years.⁷

Census data from 1990 indicated that 53.5 percent of the housing units in Pima County are owner-occupied. Home ownership in the low- and moderate-income geographies at 28.8 and 40.6 percent, respectively, is below the middle- and upper-income tracts at 56.2 and 65.0 percent, respectively. The median home price in the Tucson MSA for 1998 was \$112,600 for single family homes.⁸ When compared to the 1998 HUD adjusted median income of \$41,700, examiner calculations indicated that, using FNMA Community Home Buyers Program flexible mortgage criteria, the maximum home value for a low-income family would be \$59,890 and the maximum home value for a moderate-income family would be \$105,122.⁹ Without larger down payments, or down payment assistance, low- and moderate-income borrowers face large obstacles in purchasing homes. This income/cost profile explains Pima County's high percentage of mobile homes: 12.9 percent or 38,528 out of 298,207 total housing units reported in the 1990 census.

Arizona's unemployment rate of 4.5 percent is higher than the nation's 4.0 percent while Tucson boasts a low rate of 2.7 percent.¹⁰ Tucson's largest employers are the University of Arizona with 10,100 employees, Davis-Monthan AFB, with 8,340 employees, and state and county government agencies. Manufacturing has doubled in Tucson in the past ten years, due in part to high-technology manufacturers locating and expanding in Pima County.¹¹ In addition, Tucson has been courting growth in optics, environmental technology, software, bio-industry, aerospace and tele services as part of a comprehensive "cluster" economic development program designed to stimulate growth and diversify its economic base.¹²

Small businesses constitute the majority of businesses operating in Pima County. Eighty-nine percent of the 20,297 businesses in the Tucson MSA reported gross annual revenues equal to or less than \$1 million.¹³ Typically, credit needs of these entities warrant financing in amounts of \$100 thousand or less.

⁷ Source: Economic Outlook 1997/1998: College of Business and Public Administration, The University of Arizona

⁸ Source: National Association of Realtors: Real Estate Outlook, March 1999

⁹ Housing affordability calculated in accordance with flexible mortgage qualifying ratios of a front-end debt-to-income ratio of 28 percent, a 36 percent back-end ratio, 97 percent loan-to-value, a 7% fixed 30-year interest rate and \$100 deducted from the mortgage payment amount for taxes, hazard insurance and private mortgage insurance.

¹⁰ Source: US Dept. of Labor, Bureau of Labor Statistics, July 1999

¹¹ Source: Tucson Metropolitan Chamber of Commerce: "Tucson's Principal Economic Activities", 1997

¹² Source: Greater Tucson Economic Council: Tucson Profile 1998

¹³ Source: Dun and Bradstreet Employment Data as of December 31, 1998

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

The bank's lending activity in the Tucson assessment area reflects an excellent responsiveness to the assessment area credit needs. Community development lending is adequate considering the level of opportunities in the Tucson assessment area.

Assessment Area Concentration

Lending in the Tucson assessment area represents a significant portion of the bank's overall lending activity. By number of loans, a substantial majority of HMDA (98.3 percent) and small business loans (97.4 percent), and a majority of consumer loans (60.3 percent) were extended inside the Tucson assessment area. Similar percentages by dollar amount were also noted for all loan products reviewed. The lending levels address the critical credit needs identified by community contacts.

Geographic Distribution of Loans

The geographic distribution of loans by census tract income level reflects good penetration throughout the different geographies within the Tucson assessment area. Factors taken into consideration in reviewing the bank's performance in this area include characteristics such as population demographics, poverty levels, and the percentage of owner-occupied housing units located within tracts by income level.

The following table shows the geographic distribution of HMDA loans for 1997 and 1998 combined. Selected demographic information about the tracts is included as a basis for comparison.

DISTRIBUTION OF HMDA LOANS BY TRACT INCOME LEVEL										
CENSUS TRACT INCOME LEVEL	LOAN TYPE								% OF FAMILIES	% OF OWNER-OCCUPIED UNITS
	Conventional Home Purchase		FHA/VA		Home Improvement		Refinancing			
	Number	%	Number	%	Number	%	Number	%		
Low-Income (8.7%)	17	8.3	0	0	5	5.3	6	4.3	4.4	2.8
Moderate-Income (29.6%)	51	25.0	1	50.0	15	15.8	16	11.5	24.7	19.9
Middle-Income (34.8%)	63	30.9	0	0	33	34.7	40	28.8	36.6	38.8
Upper-Income (27.0%)	73	35.8	1	50.0	42	44.2	77	55.4	34.4	38.4
TOTAL	204	100	2	100	95	100	139	100	100	100

The bank performed well in extending purchase money mortgages in low- and moderate-income tracts, exceeding both the percentages of families and owner-occupied units by census tract level. In addition, home improvement loans were extended in low-income census tracts exceeded these demographic statistics, while moderate-income tracts were somewhat less. Both these types of credits were identified by community contacts as critical credit needs given

the affordability challenges and high percentage of substandard housing in the assessment areas.

The following chart shows the geographic distribution for all HMDA loans combined.

GEOGRAPHIC DISTRIBUTION OF HMDA LOANS						
CENSUS TRACT INCOME LEVEL	LOANS		OWNER-OCCUPIED UNITS		FAMILIES	
	Number	Percentage	Number	Percentage	Number	Percentage
Low-Income (8.7%)	34	7.3%	4,528	2.8%	7,487	4.4%
Moderate-Income (29.6%)	91	19.5%	31,764	19.9%	42,126	24.7%
Middle-Income (34.8%)	144	30.9%	61,914	38.8%	62,418	36.6%
Upper-Income (27.0%)	197	42.3%	61,261	38.4%	58,678	34.4%
TOTAL	466	100%	159,467	100%	170,709	100%

Because a small percentage of the owner-occupied housing units in the assessment areas are in low-income tracts and the smallest percentage of families reside in these tracts, few HMDA originations in those tracts is reasonable. Of the ten low-income tracts, two (20 percent) have few, if any, owner-occupied housing units or a small number of families residing in these tracts. In addition, 17.5 percent of the families in low-income tracts live below the poverty level. Given the demographics of moderate-income tracts, the bank's lending in these tracts is considered good, particularly given that 46.5 percent of the families live below the poverty level. The percentage of lending is expected in middle- and upper-income tracts is consistent with expectations given the concentrated owner-occupied profile of the areas and the percentage of families located in these tracts.

The following table shows the geographic distribution of small business loans. Selected demographic information about the tracts is included as a basis for comparison. Arizona Bank's percentage of small business lending to low- and moderate-income tracts closely mirrors the percentage of tracts in the overall institution assessment area.

GEOGRAPHIC DISTRIBUTION OF SMALL BUSINESS LOANS				
CENSUS TRACT INCOME LEVEL	LOANS		TRACTS	
	Number	Percentage	Number	Percentage
Low-Income	61	8.1%	10	8.7%
Moderate-Income	220	29.1%	34	29.6%
Middle-Income	257	34.0%	40	34.8%
Upper-Income	218	28.8%	31	27.0%
TOTAL	756	100%	115	100%

The following table compares the geographic distribution of small business loans of Arizona Bank to the aggregate small business lending data and the distribution of small businesses by income geography. Selected demographic information about the tracts is also included as a basis for comparison. The aggregate includes all financial entities reporting a small business loan in the Tucson assessment area. The percentages in the table exclude loans with the tract

not reported. Aggregate small business lending data for 1998 was not available at this examination.

ARIZONA BANK VERSUS AGGREGATE SMALL BUSINESS LENDING					
CENSUS TRACT INCOME LEVEL	ARIZONA BANK		AGGREGATE	TRACTS	BUSINESSES
	Number	Percentage	Percentage	Percentage	Percentage
Low-Income	61	8.1%	7.7%	8.7%	7.5%
Moderate-Income	220	29.1%	27.0%	29.6%	25.7%
Middle-Income	257	34.0%	30.5%	34.8%	33.5%
Upper-Income	218	28.8%	35.4%	27.0%	33.2%
TOTAL	756	100%	100%	100%	100%

Particular strength is noted in the bank's small business lending profile. The bank's lending exhibits an excellent record of serving the credit needs of small businesses throughout the various income geographies relative to the aggregate lending and the percentage of small businesses within the different geographies, particularly low- and moderate-income tracts.

The following table shows the geographic distribution of consumer loans. Selected demographic information about the tracts is included as a basis for comparison.

GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS				
CENSUS TRACT INCOME LEVEL	LOANS		TRACTS	
	Number	Percentage	Number	Percentage
Low-Income	115	2.1%	10	8.7%
Moderate-Income	1,212	21.9%	34	29.6%
Middle-Income	2,053	37.1%	40	34.8%
Upper-Income	2,159	39.0%	31	27.0%
TOTAL	5,539	100%	115	100%

Although Arizona Bank's percentage of consumer lending in low- and moderate-income tracts is considerably below the percentage of low- and moderate-income tracts in the Tucson assessment area, the distribution is considered adequate given several factors noted by examiners. First, the family poverty levels of 17.5 and 46.5 percent in low- and moderate-income census tracts contribute to the lending disparities noted in these census tracts. Housing lending nonetheless represents a responsiveness to the critical needs of this sector of the market.

Distribution of Loans by Borrower's Income and Revenue Sizes of Businesses

Arizona Bank's lending to borrowers of different incomes exhibits a good penetration among borrowers of different income levels and businesses of different sizes in the assessment area.

The following table shows the percentage distribution of the bank's HMDA loans by the income level of the borrowers. The percentages in the table exclude loans for which the borrower's income was not available.

DISTRIBUTION OF HMDA LOANS BY BORROWER INCOME LEVEL										
BORROWER INCOME LEVEL	LOAN TYPE								TOTAL FAMILIES	
	Conventional Home Purchase		FHA/VA		Home Improvement		Refinancing			
	Number	%	Number	%	Number	%	Number	%	Number	%
Low-Income	48	23.5%	1	50.0%	12	12.6%	10	7.2%	35,081	20.6%
Moderate- Income	52	25.5%	0	0%	21	22.1%	25	18.0%	30,298	17.7%
Middle- Income	24	11.8%	0	0%	28	29.5%	26	18.7%	38,189	22.4%
Upper- Income	68	33.3%	0	0%	29	30.5%	74	53.2%	67,141	39.3%
TOTAL	192	100%	1	100%	90	100%	135	100%	170,709	100%

For HMDA loans, the bank has an excellent record of lending to low- and moderate-income borrowers. A contributing factor to this profile is the affordable housing program the bank introduced in 1995 to attract low- and moderate-income borrowers. The program was introduced to aid the bank's ability to lend to low-income borrowers given the affordability of homes in the market. As previously noted, most low-income families in the assessment area cannot afford to purchase a home given the value of most homes in the assessment area. Moderate-income families also face affordability challenges, but to a lesser degree.

The following table shows the percentages of HMDA loans to borrowers of different income levels for Arizona Bank compared to market performance and the distribution of families by income category. Only 1997 aggregate market lending data is available for comparison. The percentages in the table exclude loans with the income not available.

MARKET COMPARISON OF HMDA LOANS		
BORROWER INCOME LEVEL	PERCENTAGE OF TOTAL FAMILIES	PERCENTAGE OF LOANS

		ARIZONA BANK	AGGREGATE
Low-Income	20.6%	15.2%	5.5%
Moderate-Income	17.7%	21.0%	15.1%
Middle-Income	22.4%	16.7%	22.1%
Upper-Income	39.3%	36.7%	38.8%
TOTAL	100%	100%	100%

Arizona Bank compares very favorably to the aggregate in HMDA lending, particularly to low- and moderate-income borrowers. As previously noted, the bank targets low- and moderate-income borrowers with its affordable housing loan program. Arizona Bank does not have credit products targeted to any other specific income sectors of its market. Lending activity in these areas are reasonable given market demand and local competition.

Commercial and industrial loans, including nonfarm nonresidential real estate loans, accounted for approximately 23.5 percent of the loan portfolio of the bank on December 31, 1998. The following table depicts by loan size, the number and dollar volume of loans originated in the Tucson assessment area that are by definition small business loans. By number of loans, 75.3 percent of small business loans were in amounts of \$100,000 or less, demonstrating the bank's responsiveness to the most significant small business credit need, that is smaller dollar commercial loans.

SMALL BUSINESS LOAN ORIGINATIONS BY LOAN SIZE				
LOAN AMOUNT	NUMBER OF LOANS	PERCENTAGE OF LOANS	DOLLARS (\$000s)	PERCENTAGE OF DOLLARS
\$100,000 or less	567	75.2%	\$26,490	30.6%
\$100,001 - \$250,000	104	13.8%	\$19,655	22.7%
\$250,001 - \$1 million	83	11.0%	\$40,574	46.8%
TOTAL	754	100%	\$86,719	100%

There is also a good penetration of loans to businesses of different sizes. Of small business loans with revenue information reported, 54.1 percent by number and 35.5 percent by dollar were extended to businesses with revenues of \$1 million or less, exhibiting a concentration of lending to small businesses which reasonably corresponds to the percentage of businesses in the assessment area.

The following table shows the percentages of consumer loans to borrowers of different income levels for Arizona Bank compared to the distribution of families by income category. The percentages in the table exclude loans with the income not available.

DISTRIBUTION OF CONSUMER LOANS BY BORROWER INCOME		
BORROWER INCOME		
BORROWER INCOME LEVEL	PERCENTAGE OF TOTAL FAMILIES	PERCENTAGE OF LOANS ARIZONA BANK
Low-Income	20.6%	13.4%
Moderate-Income	17.7%	24.8%
Middle-Income	22.4%	28.6%
Upper-Income	39.3%	33.3%
TOTAL	100%	100%

The bank's consumer loan distribution by borrower income demonstrates a good penetration when considered in light of assessment area characteristics relating to family poverty levels and identified credit needs as previously discussed.

Community Development Lending

Arizona Bank made an adequate level of qualified community development loans relative to needs. The bank pursues direct community development lending and, during the review period, extended 15 loans totaling \$1.3 million. As noted in the previous discussion of the lending throughout the bank's different assessment areas, all of the community development loans were in the Tucson assessment area where Arizona Bank is most established. The financing enabled the provision of 19 affordable housing units, and supported non-profit entities that provide community services to low- and moderate-income individuals and families.

INVESTMENT TEST

Arizona Bank's performance under the investment test is low satisfactory based upon the level and nature of community investment and grant activity, particularly as it relates to the level of responsiveness to the needs in the assessment area.

Volume of Qualified Investments

The bank made an adequate level of qualified community development investments and grants in the Tucson assessment area. The bank's level of qualified investments totaled \$2.2 million, or less than one percent of total assets. These qualified investments were solely comprised of school improvement bonds. According to bank management, the bank's total investment portfolio as of December 31, 1998 was approximately \$161.2 million.

In addition, the bank extended approximately \$157,600 in qualified grants in support of community development services, primarily to organizations serving the Tucson assessment area, or a larger geographic area that comprises Tucson. For example, the bank paid the cost of providing credit-counseling services to 94 low- and moderate-income first-time homebuyers under an arrangement with a local community development organization. Other organizations supported by the bank include the Boys and Girls Club, Tucson Urban League, and the YMCA summer camp program for underprivileged children. All of the organizations target their services to low and moderate-income individuals or families.

The large branch presence of Arizona Bank and its established presence and business relationships in the local market have attributed to the concentration of investments in this assessment area.

Use of Innovative or Complex Investments

The bank has not used innovative or complex investments to support community development initiatives. Nevertheless, the investments funded do address acknowledged credit needs in the bank's assessment area.

Responsiveness to Credit and Community Development Needs

Based on an evaluation of the performance context, area demographics, and contacts made within the community, the bank's investments exhibit adequate responsiveness to credit and community development needs in the assessment areas. All of the bank's qualified investments in the Tucson assessment area were responsive to educational needs. While the bank has made an adequate volume of these investments, the bank has not taken a participatory role in other community development projects or undertaken other types of investments which address some of the community's housing and small businesses development needs.

SERVICE TEST

Based on its provision of retail and community development services, the bank's overall performance under the service test is low satisfactory.

Accessibility of Delivery Services

The bank's delivery systems are reasonably accessible to essentially all portions of the bank's assessment area. An analysis of the distribution of the branches of the bank was completed comparing the locations of all 17 branches in the assessment area to the percentage of families residing in each census tract type within the assessment areas. The table below shows the distribution of branches and families.

GEOGRAPHIC DISTRIBUTION OF BRANCHES AND FAMILIES			
CENSUS TRACT INCOME LEVEL	BRANCH DISTRIBUTION		PERCENTAGE OF TOTAL FAMILIES
	Number	Percentage	

Low-Income	1	5.9%	4.4%
Moderate-Income	1	5.9%	24.7%
Middle-Income	9	52.9%	36.6%
Upper-Income	6	35.3%	34.4%
TOTAL	17	100%	100%

The percentage of branches for the bank in moderate-income tracts is notably different from the percentage of total families in these tracts. A review of branch locations indicates that one branch located in a middle-income tract is contiguous to low- and moderate-income tracts. As a whole, the bank's branch delivery system provided reasonable access to low-and moderate-income families.

Changes in Branch Locations

Arizona Bank's record of opening and closing branches has not adversely affected the accessibility of its delivery systems in the Tucson assessment area. Since the previous examination, the bank has opened nine branches and has not closed any facilities in the assessment area. Of the recently opened branches, five were in middle-income tracts, and four were in upper-income tracts.

Reasonableness of Business Hours and Services in Meeting Assessment Area(s) Needs

With the exception of one office, the newly established branches are located in Albertson's supermarkets (6) or Super Kmart stores (2) and provide the bank's customers with Saturday banking hours. None of the stand-alone offices of the bank provides Saturday banking. Because of the location of these retail outlets, all of the offices providing Saturday hours in the Tucson assessment area are located in middle- and upper-income census tracts. There was no definitive evidence that the variance in hours of operation had an impact on the accessibility to banking services in low- and moderate-income areas. Each of the branch offices has at least one ATM, with two provided at the Super Kmart locations. The range of branch services available to all census tracts is similar throughout the assessment area.

Despite concentrations of branches in middle and upper income areas, the bank has not taken an innovative approach to increasing the availability of services throughout its assessment areas.

Community Development Services

Arizona Bank provides a limited level of community development services to CRA-qualified organizations throughout the Tucson assessment area. Employees participate on boards of directors and finance and loan committees, as well as provide management and other technical assistance to community development organizations. For example, the bank provided technical assistance to several community development organizations that applied for

grants under the Federal Home Loan Bank's Affordable Housing Program. Employees are also involved in community development services to organizations that serve low- and moderate-income families and individuals or promote the growth and success of small businesses within the assessment area.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE MARICOPA ASSESSMENT AREA

Arizona Bank entered this assessment area in April 1998. Deposits in the assessment area as of June 30, 1998 were \$1.5 million or 0.2 percent of the bank's total deposits. As of December 31, 1998, this assessment area consisted of 466 census tracts and represented the entire county of Maricopa. Thirty-one census tracts are low-income; 108 are moderate-income; 178 are middle-income; and 149 are upper-income.

Maricopa County, the most populous county in the state, has experienced a 28.2 percent increase in population from 1990 through 1997.¹⁴ The growth trend continued in 1998, when the population rose by 3.1 percent from 2,699,098 to 2,784,075.¹⁵ More than half of the state's population resides in Maricopa County, which includes the cities of Phoenix, Mesa, Glendale, Scottsdale, Tempe, Chandler, Peoria 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 Arizona's political and economic activity.

While middle- and upper-income families are predominant in the assessment area, low- and moderate-income families constitute over thirty-seven percent of all families. The 1998 HUD median income is \$48,300. 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.¹⁶

Major industries include high-tech, manufacturing, agriculture, and tourism. The non-seasonally adjusted unemployment rate for Maricopa county was 3.0 percent in May 1999 and similar to the May 1997 rate of 2.9 percent.¹⁷ The housing stock in the assessment area is primarily comprised of owner-occupied housing units, representing 53.7 percent, while rentals stood at 31.1 percent, and vacant units at 15.2 percent. Of the 511,344 total housing units, 9.1 percent or 86,259 are mobile homes. Arizona Bank operates four full-service branches in Albertson's markets in this assessment area.

PERFORMANCE CONTEXT FOR THE MARICOPA ASSESSMENT AREA

The following table shows selected demographic characteristics for the Maricopa assessment area in comparison to demographics for all the bank's assessment areas combined.

¹⁴ Source: Arizona Department of Commerce, Population Density for Arizona

¹⁵ Source: Population Estimates Program, Population Division, U.S. Bureau of the Census

¹⁶ Source: Dun and Bradstreet Employment Data as of December 31, 1998

¹⁷ Source: U.S. Dept. of Labor, Bureau of Labor Statistics, July 1999

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Insert Maricopa Assessment Area Here

METROPOLITAN AREAS NOT REVIEWED USING EXAMINATION PROCEDURES – FLAGSTAFF

DESCRIPTION OF INSTITUTION'S OPERATIONS IN FLAGSTAFF, ARIZONA

Arizona Bank entered this assessment area in November 1997. Deposits in this assessment area as of June 30, 1998 were \$560,000 or 0.1 percent of the bank's total deposits. As of December 31, 1998, this assessment area consisted of six census tracts in the Flagstaff MSA which consists of Coconino County. Two census tracts are moderate-income; three are middle-income; and one is upper-income. Total population in this assessment area is 21,529 representing approximately 21 percent of the total MSA population. Thirty-eight percent of the families in this assessment area are low- or moderate-income. The 1998 HUD median income is \$42,600. Approximately 91 percent of the 1,543 businesses operating in the Flagstaff assessment area are small businesses having gross annual revenues of less than \$1 million. Major industries include tourism, ranching and government. The non-seasonally adjusted unemployment rate of the area was 5.8 percent in May of 1999 down from 7.3 percent as of May 1997.¹⁸ The housing stock in the assessment area is split evenly between owner occupied single family residences and rental housing, both at 42.8 percent. Of the 8,959 total housing units, 9.7 percent or 866 are mobile homes. Arizona Bank operates one full-service branch in an Albertson's market in this assessment area.

The following table shows selected demographic characteristics for the Flagstaff assessment area compared to demographics for all the bank's assessment areas combined.

¹⁸ Source: US Dept. of Labor, Bureau of Labor Statistics, July 1999

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*****INSERT DEMOGRAPHIC COMPARISONS TABLE FOR FLAGSTAFF*****

METROPOLITAN AREAS NOT REVIEWED USING EXAMINATION PROCEDURES – YUMA
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DESCRIPTION OF INSTITUTION'S OPERATIONS IN YUMA, ARIZONA

Arizona Bank entered this assessment area in June 1997. As of June 30, 1998, the bank had \$3.2 million in deposits or 0.5 percent of its total deposits in this assessment area. As of December 31, 1998, this assessment area consisted of 13 census tracts in Yuma County that contain the city of Yuma. Yuma county comprises the Yuma MSA. Four census tracts are moderate-income; four are middle-income and five are upper-income. Total population in this assessment area is 71,140, representing approximately 67 percent of the total MSA population. Thirty-three percent of the families in this assessment area are low- or moderate-income. The 1998 HUD median income in the Yuma MSA is \$33,500. Approximately 90 percent of the 1,689 businesses operating in the Yuma assessment area have gross annual revenues of less than \$1 million. Agriculture, ranching and the military are the largest employment sectors in Yuma. The non-seasonally adjusted unemployment rate of the area has risen from 28.3 percent in May 1997 to 33.9 percent as of May 1999.¹⁹ The housing stock in the assessment area is primarily owner-occupied single family residences with over 50 percent of the 29,207 total housing units within this category. Mobile homes represent 26 percent of total housing units or 7,607 units. Arizona Bank operates one full-service branch in an Albertson's Market in this assessment area.

The following table shows selected demographic characteristics for the Yuma assessment area compared to demographics for all the bank's assessment areas combined.

¹⁹ Source: US Dept. of Labor, Bureau of Labor Statistics, July 1999

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INSERT DEMOGRAPHIC COMPARISION TABLE FOR YUMA***

**NON-METROPOLITAN AREAS NOT REVIEWED USING EXAMINATION
PROCEDURES –
PRESCOTT-PRESCOTT VALLEY**

**DESCRIPTION OF INSTITUTION'S OPERATIONS IN PRESCOTT-PRESCOTT VALLEY,
ARIZONA**

Arizona Bank entered this assessment area in June 1997. As of June 30, 1998, the bank had \$6.9 million or 1 percent of its total deposits in this assessment area. As of December 31, 1998, this assessment area consisted of nine census tracts in Yavapai County that include the cities of Prescott and Prescott Valley. Four census tracts are middle-income and five are upper-income. Total population in this assessment area is 14,400 representing approximately 45 percent of the total county population. Twenty-nine percent of the families in this assessment area are low- or moderate-income. The 1998 HUD median income is \$34,100. Approximately 93 percent of the 2,599 businesses operating in the Prescott assessment area have gross annual revenues of less than \$1 million. Government is the dominant sector in Prescott's economy although manufacturing is the fastest growing sector. The non-seasonally adjusted unemployment rate of the area has decreased from 3.9 percent in May 1997 to 3.4 percent as of May 1999.²⁰ The housing stock in the assessment area is primarily owner-occupied single family residences with over 58 percent of the 25,190 housing units within this category. Mobile homes represent 21 percent or 5,177 units of the total. Arizona Bank operates two full-service branches in Albertson's Markets in this assessment area.

The following table shows selected demographic characteristics for the Prescott-Prescott Valley assessment area compared to demographics for all the bank's assessment areas combined.

²⁰ Source: US Dept. of Labor, Bureau of Labor Statistics, July 1999

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*****INSERT DEMOGRAPHIC COMPARISION TABLE FOR PRESCOTT-PRESCOTT VALLEY*****

METROPOLITAN AREAS NOT REVIEWED USING EXAMINATION PROCEDURES – KINGMAN-BULLHEAD CITY

**DESCRIPTION OF INSTITUTION'S OPERATIONS IN KINGMAN-BULLHEAD CITY,
ARIZONA**

Arizona Bank entered this assessment area in April 1997. As of June 30, 1998, the bank had \$5.3 million or 1 percent of its total deposits in this assessment area. As of December 31, 1998 this assessment area consisted of 17 census tracts in Mohave County that include the cities of Kingman and Bullhead City. Nine census tracts are moderate-income and eight are middle-income. Total population in this assessment area is 59,047 representing approximately 7 percent of the population of the Las Vegas MSA, of which Mohave County is a part. Fifty-two percent of the families in this assessment area are low- or moderate-income. According to HUD, the Las Vegas MSA median income was \$46,900 in 1998. Approximately 92 percent of the 2,138 businesses operating in the Kingman assessment area have gross annual revenues of less than \$1 million. Tourism, manufacturing and transportation are the major industries of the area. This assessment area's non-seasonally adjusted unemployment rate has fluctuated somewhat but was 4.8 percent for both May 1997 and May 1999.²¹ The housing stock in the assessment area is primarily owner-occupied single family residences with over 51 percent of the 31,917 housing units within this category. Of these 16,393 or 51.4 percent are mobile homes. Arizona Bank operates two full-service branches in Albertson's Markets in this assessment area.

The following table shows selected demographic characteristics for the Kingman-Bullhead City assessment area compared to demographics for all the bank's assessment areas combined.

²¹ Source: US Dept. of Labor, Bureau of Labor Statistics, July 1999

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******INSERT DEMOGRAPHIC COMPARISONS TABLE FOR KINGMAN******

METROPOLITAN AREAS NOT REVIEWED USING EXAMINATION PROCEDURES – CASA GRANDE

DESCRIPTION OF INSTITUTION'S OPERATIONS IN CASA GRANDE, ARIZONA

Arizona Bank entered this assessment area in March 1997. As of June 30, 1998, the bank had \$2.1 million or 0.3 percent of its total deposits in this assessment area. As of December 31, 1998, the Casa Grande assessment area consisted of six census tracts in Pinal County that include the city of Casa Grande. One census tract is low-income; four are moderate-income and one is middle-income. Total population in this area is 33,428 representing approximately 1 percent of the total county population. Fifty-seven percent of the families in this assessment area are low- or moderate-income. Because this county is included in the Phoenix MSA, the 1998 HUD median income is high at \$48,300. Approximately 90 percent of the 863 businesses operating in the Casa Grande assessment area have gross annual revenues of less than \$1 million. Once dependent on agriculture and mining, the area has diversified into manufacturing, retail trade, government and tourist related services. The non-seasonally adjusted unemployment rate of the area has decreased from 4.7 percent in 1997 to 4.0 percent in 1999.²² The housing stock in the assessment area is primarily owner-occupied single family residences with over 54 percent of the 12,681 housing units within this category. Mobile homes represent 3,172 or 25 percent of total housing units in the area. Arizona Bank operates one full-service branch in an Albertson's Market in this assessment area.

The following table shows selected demographic characteristics for the Casa Grande assessment area compared to demographics for all the bank's assessment areas combined.

²² Source: US Dept. of Labor, Bureau of Labor Statistics, July 1999

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*****INSERT DEMOGRAPHIC COMPARISONS TABLE FOR CASA GRANDE*****

<p style="text-align: center;">NON-METROPOLITAN AREAS NOT REVIEWED USING EXAMINATION PROCEDURES – WILLCOX</p>
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DESCRIPTION OF INSTITUTION'S OPERATIONS IN WILLCOX, ARIZONA

Arizona Bank has had operations in Willcox since December 1975. As of June 30, 1998, the bank had \$23.0 million or 4 percent of its total deposits in this assessment area. As of December 31, 1998, this assessment area consisted of one middle-income census tract in Cochise County that contains the city of Willcox. Total population in this tract is 7,604 representing approximately 7 percent of the total county population. Forty-two percent of the families in this assessment area are low- or moderate-income. The 1998 HUD median income for Cochise County was \$35,200. Approximately 93 percent of the 337 businesses operating in the Willcox assessment area have gross annual revenues of less than \$1 million. Once known as the cattle capital of the nation, Willcox is still largely agricultural with grains and cotton in addition to its focus on livestock. The non-seasonally adjusted unemployment rate for the area has diminished from 8.4 percent in May 1997 to 6.3 percent in May 1999²³. The housing stock in the assessment area is primarily owner-occupied single family residences with over 60 percent of the 3,669 housing units within this category. Mobile homes represent 30 percent or 1,093 units of the total housing units. Arizona Bank operates one traditional full-service branch in this assessment area.

The following table shows selected demographic characteristics for the Willcox assessment area compared to demographics for all the bank's assessment areas combined.

²³ Source: US Dept. of Labor, Bureau of Labor Statistics, July 1999

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*****INSERT DEMOGRAPHIC COMPARISION TABLE FOR WILLCOX*****

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

The limited scope review of the bank's performance in these assessment areas included a cursory review of all three regulatory tests. For the lending test, the bank's origination of small business, HMDA, and consumer loans were reviewed. In addition, examiners gave consideration to the level of community development lending and to the bank's innovation through the implementation of its affordable housing program. The quantity and complexity of the bank's CRA qualified investments was also evaluated. Finally, examiners considered both the level and the nature of retail and community development services provided by the bank.

Based on this limited review, the bank's lending, investments, and service performance in these assessment areas is reasonable given the branch network, and historical product focus, and is considered to be consistent with the bank's lending, investment, and service performance overall.

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 byfinancing business or farms that 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: 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 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.
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 a family.
Geographies	Census tracts or numbering area blocks delineated by the U.S. Bureau of Census in the most recent decennial census.
Households	Defined by the U.S. Bureau of Census as all persons occupying a housing unit.
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.
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.