



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

December 12, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Scottsdale Bank, National Association
Charter Number 24805

15190 North Hayden Road
Scottsdale, AZ 85267

Office of the Comptroller of the Currency

Phoenix Field Office
9633 South 48th Street, Suite 265
Phoenix, AZ 85044

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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

The lending performance of First Scottsdale Bank, N.A. (FSB) reflects a satisfactory response to community credit needs. This is based on the following information.

- The bank makes a substantial majority of its loans to borrowers inside the assessment area (AA).
- The distribution of loans reflects excellent penetration among businesses of different sizes.
- The geographic distribution of loans reflects a reasonable dispersion throughout the AA.
- The loan-to-deposit (LTD) ratio is less than reasonable given the bank's size and financial condition and AA credit needs.

SCOPE OF EXAMINATION

This examination consisted of a full scope review of the bank's designated AA. The evaluation period for this CRA examination includes loan origination and purchase activity from January 1, 2009, through December 11, 2011. Loan activity during the evaluation period was compared to census demographics from 2000. To determine the sample for the evaluation period, we looked at the number and dollar amount of loans originated. An evaluation of the originations showed FSB's primary product to be business loans, which is representative of the current business strategy.

Loan Originations for Evaluation Period as a % of Total Originations	Percentage of Dollar Amount of Loans	Percent of Number of Loans
Business Loan Originations	90%	78%
Total Primary Products	90%	78%

Source: Loan originations for evaluation period

We sampled 20 business loans to calculate the percentage of lending to businesses located inside the AA. To perform other lending tests, we expanded our sample to include all business loans which were located in the AA and originated or purchased in the loan sampling period. This expanded sample totaled 36 loans. Our review also included contacting a community representative in the AA.

DESCRIPTION OF INSTITUTION

FSB is a full-service community bank headquartered in Scottsdale, Arizona. As of

September 30, 2011, FSB had \$62 million in total assets and net loans of \$19 million, or 31% of total assets. The bank operates one main office and no ATMs. In April 2011, FSB moved the main office to the current location and changed the organization's name from First National Bank of Scottsdale. Both the current and prior locations are located within the same census tract. The bank opened December 14, 2007, as a national bank subsidiary of First Olathe Bancshares, Inc. In October 2010, a local investor group purchased the bank in a transaction that, among other things, reduced the size of the loan portfolio.

The bank's primary lending focus is business lending. Business loans comprised 84% of the total loan portfolio balance as of September 30, 2011.

There are no financial or legal impediments that hinder the bank's ability to help meet the credit needs of the AA. This is the bank's first CRA examination.

Additional details about the bank may be found in its Public File, which is maintained at the main office.

DESCRIPTION OF ASSESSMENT AREA

FSB has designated Arizona's Maricopa County as its AA. Maricopa County includes 663 census tracts (CT) and the cities of Phoenix, Scottsdale, Tempe, and several others. According to census data from 2000, Maricopa County contains 40 low-, 181 moderate-, 230 middle-, and 208 upper-income CTs. Four CTs had information which was not available. The AA is part of the Phoenix-Mesa-Glendale metropolitan statistical area (MSA), which also includes Pinal County. The AA meets the legal requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The bank's one office is located in an upper-income CT. Other CTs in the immediate vicinity are generally upper- or middle-income; however, FSB has the ability to service the needs of the AA's low- and moderate-income geographies as well. The bank has no ATMs, but available products and services, such as remote deposit capture and online banking, allow for business to take place outside of the physical location.

The following table outlines pertinent demographic and economic data for FSB's AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population (based on 2000 Census)	
Number of individuals	3,072,149
Median Family Income (MFI) and % of families by income level	
HUD Updated MSA Median Family Income	\$65,500
Percentage of low-income families	19%
Percentage of moderate-income families	18%
Percentage of middle-income families	22%
Percentage of upper-income families	41%
Housing	
Number of housing units	1,250,231

Percent Owner Occupied	61%
2000 Median Housing Value	\$130,648
Economic Indicators	
Unemployment Rate (as of September 2011)	8%
% of Households Below Poverty Level	10%

Source: U.S. Census data, U.S. Bureau of Labor Statistics

2010 data from the Bureau of Labor Statistics reveals that the top employment industries in Maricopa County are retail trade, health care and social assistance, administrative and waste services, and accommodation and food services. These industries employ 14%, 14%, 11%, and 10% of the area's workers, respectively. The employment trend is positive as the Phoenix-Mesa-Glendale MSA unemployment figure dropped from 9.1% to 8.0% between September 2010, and September 2011.

Competition among financial institutions is high. The June 30, 2011 FDIC Deposit Market Share Report showed that 61 financial institutions competed for over \$60.4 billion in deposits. These figures do not include local credit unions. Competition ranged from branches of America's largest financial institutions to locally headquartered institutions with only one location. FSB has 0.06% of the market share in Maricopa County. The three largest financial institutions account for over 71% of the market share, while 14 institutions held a market share below that of FSB. The largest market share reported for an institution with only one location was 0.29%.

There are five similarly situated banks to FSB in the marketplace. The similarities were identified in terms of size, geographic presence, and line of business. All five institutions are local banks with comparable operations. These institutions were used to evaluate the bank's LTD ratio.

During this examination, we contacted one community representative to discuss local economic conditions and credit needs. The contact suggested that small business lending, especially to start-up businesses, is a primary credit need of the AA. The contact also noted the participation of a number of financial institutions in local initiatives which provide assistance and funds to small businesses.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Based on a sample of the primary lending product, the bank's CRA performance in meeting the credit needs of the community is Satisfactory. The bank makes a substantial majority of its loans to borrowers inside the AA. FSB has excellent penetration among businesses of different sizes and reasonable geographic dispersion throughout the AA. The LTD ratio is less than reasonable given the bank's size and financial condition and AA credit needs. Each of the areas considered in the lending test is described below.

Lending in Assessment Area

The bank makes a substantial majority of its loans to borrowers inside the AA. Loans to borrowers within the AA accounted for 100% of the loans sampled. These results exceed the standard of satisfactory performance for this factor.

Lending to Businesses of Different Sizes

The distribution of commercial loans reflects excellent penetration among businesses of different sizes. In the current loan sampling period, the bank made 58% of its commercial loans to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. While the percentage of loans originated is below the percentage of small businesses in the AA, this is offset by the dollar amount of loans made to small businesses. Approximately 74% of all funds extended to businesses came in the form of small business loans. This figure compares above the 67% of businesses in the AA which report revenues of one million dollars or less. There is a relatively high level of businesses in the AA with unknown revenues. This level is significant and, without verifiable information indicating the size category of these businesses, less weight was given to this performance area when determining the overall CRA rating.

Borrower Distribution of Loans to Businesses in FSB's AA				
Business Gross Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	67%	2%	31%	100%
% of Bank Loans in AA by #	58%	36%	6%	100%
% of Bank Loans in AA by \$	74%	24%	2%	100%

Source: Loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans

The geographic distribution of business loans reflects reasonable dispersion throughout the AA. The percentage of sampled loans that were in low-income CTs is significantly higher than the percentage of AA businesses in low-income CTs. However, the level of lending to businesses in moderate-income CTs does not reflect similar penetration. Only 8% of the bank's commercial loans were made to businesses in moderate-income CTs, while 18% of AA businesses were located in these areas. The cause of this discrepancy is unknown, although it is evident that the bank has not withheld lending to businesses in the lower two CT levels. The size of the loan portfolio was significantly reduced due to the bank purchase which occurred in October 2010. This transaction may have altered a more equally distributed loan portfolio.

Geographic Distribution of Loans to Businesses in FSB's AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	4%	17%	18%	8%	32%	42%	46%	33%

Source: Loan sample; Dunn and Bradstreet data.

Loan-to-Deposit Ratio

The LTD ratio is less than reasonable given the size and financial condition of the bank and the context of the AA. The average quarterly LTD ratio from the bank's opening in December 2007, through September 30, 2011, was 65%. Examiners identified five competitors who had an average LTD ratio of 91%. FSB's LTD ratio ranged from a low of 17% to a high of 112% during the time period evaluated.

Bank	Average Quarterly Loan-to-Deposit Ratio
FSB	65%
Bank A	75%
Bank B	83%
Bank C	97%
Bank D	99%
Bank E	103%

Source: Uniform Bank Performance Report

A number of circumstances placed downward pressure on the bank's LTD ratio. External factors, such as current economic conditions and a high level of competition, affected all banks in the AA. Several internal factors, however, solely affected the LTD ratio of FSB. The largest of these factors was an investor purchase of the bank in October 2010. This purchase reduced the size of the loan portfolio and negatively impacted the bank's LTD ratio. Although the LTD ratio declined because of the transaction, the ratio had compared below the competitor range prior to the purchase as well.

Examiners considered the bank's lending strategy and capacity, history, size, AA credit needs, and economic conditions in arriving at the conclusion. Examiners noted that the LTD ratio increased in each of the four quarters since the October 2010 purchase.

Responses to Complaints

FSB has not received any CRA-related complaints in the current evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.