



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 17, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Meridian Bank, National Association
Charter Number 24320**

**2001 West Wickenburg Way
Wickenburg, Arizona 85390**

**Comptroller of the Currency
ADC-Arizona & New Mexico
9633 South 48th Street Suite 265
Phoenix, Arizona 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: Satisfactory

Meridian Bank, N.A.'s (MBNA) lending performance reflects a satisfactory response to community credit needs. This conclusion is based on the following results.

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition and assessment area (AA) credit needs.
- The bank originated a substantial majority of loans inside its AA.
- Lending activities represent reasonable penetration of loans to businesses of different sizes.
- The geographic distribution of loans reflects a reasonable dispersion throughout the AA.

DESCRIPTION OF INSTITUTION

As of December 31, 2002, MBNA had eight offices and total assets of \$358 million. The bank will be examined as a large bank for CRA purposes at the next examination.

The bank has one AA, comprising all of Maricopa County. All of the bank's offices are in Maricopa County. The main office and one branch are in Wickenburg, AZ, in a moderate-income census tract. The Avondale branch is also in a moderate-income census tract. There are two other branches in middle-income tracts (Fountain Hills and Peoria), and three branches in upper-income tracts (Glendale, Gilbert, and Central Avenue).

Subsequent to December 31, 2002, one branch in Wickenburg closed, as did the branch on Central Avenue in downtown Phoenix. The Wickenburg branch closure was less than three miles from the main office. The historical building in which it was housed was donated by the bank to a local 501(c)(3) non-profit organization. The old Central Avenue branch was recently combined with a branch in a moderate-income tract on Central Avenue through acquisition of the Valley Bank of Arizona. An additional branch in an upper-income tract on Scottsdale was also added through that acquisition.

MBNA is a member of a one-bank holding company, Marquette Financial Companies, of Minneapolis, Minnesota. MBNA is 100% owned by the holding company. MBNA has three lending subsidiaries: Builders Mortgage Company, LLC; Itasca Business Credit Inc.; and Marquette Funding, Inc.

Primary products were identified using loan originations for 2001-2002. The data for 2003 was not used due to significant impact of 2000 census tract changes. We looked at both the dollar amount of loans and the number of loans originated. An evaluation of the originations is in a table on the following page. It shows MBNA's primary product to be commercial loans, which is representative of the bank's business strategy.

| Loan Originations for Evaluation Period | Percentage of Dollar Amount of Loans | Percentage of Number of Loans |
|---|--------------------------------------|-------------------------------|
| Commercial Loan Originations as a % of Total Originations | 78% | 33% |

Source: Loan Originations for evaluation period

We sampled 20 commercial loans from 2001 and 2002 for the inside AA ratio. We then assessed the bank's level of lending activity, particularly in the low- and moderate-income areas (LMI), and to borrowers inside the AA with less than \$1 million in gross annual revenues.

We reviewed bank-provided information from the request letter, UBPR information, various web sites including FFIEC, FDIC and CRA Wiz demographic information to establish performance context data.

The bank was previously rated satisfactory as of July 6, 1999. There are no financial or legal impediments that hinder the bank's ability to help meet the credit needs of the AA.

DESCRIPTION OF MARICOPA COUNTY ASSESSMENT AREA

MBNA's AA consists of the County of Maricopa, which is part of the Phoenix-Mesa MSA. The county is one of the largest in the country, stretching 100 miles in diameter and covering a total of 9,226 square miles. Phoenix and several smaller towns and cities including Avondale, Buckeye, Carefree, Cave Creek, Chandler, Fountain Hills, Gilbert, Glendale, Goodyear, Litchfield Park, Mesa, Peoria, Scottsdale, Sun City, Tempe, and Wickenburg all lie within Maricopa County. Luke Air Force Base and the Indian Reservations of Fort McDowell, Salt River and Gila River are also within the boundaries of the county.

Based on the 1990 census, which is the database used for this analysis, there are 466 census tracts (CT) in Maricopa County. Those CT's include 149 upper-, 178 middle-, 108 moderate-, and 27 low-income tracts. There are also 4 "NA" tracts, usually consisting of prisons, universities, etc., for which there is no reported income by the population to allow a designation of low- to upper-income.

The Phoenix-Mesa MSA is one of the fastest growing metropolitan areas of the nation, with a 1990 population of over 2 million, and a 2000 population of over 3 million. More than half the state's population resides in Maricopa County. In 2002, the Department of Housing and Urban Development (HUD) provided an estimated update for Maricopa County's median family income (MFI) at \$57,900.

The unemployment rate for the Phoenix-Mesa MSA has been increasing over the last 3 years, from 2.7% in 2000 to 4.0% in 2001 and 5.7% in 2002. According to The Business Journal of June 2002, the top 10 employers in the greater Phoenix area are the State of Arizona, Wal-Mart Stores, Maricopa County, Banner Health Systems, Honeywell International, Krogers, the City of Phoenix, the USPS, Motorola, and Intel. Major industries include high technology and tourism.

To help us understand more about the bank's performance context, we also performed our own

community contact. The community contact identified small business loans as the primary community credit need. Overall, the contact described all banks in the area as doing a satisfactory job of meeting area credit needs. However, there was some concern that banks were not responsive to technology credit needs where the collateral offered was not traditional real estate or equipment collateral.

Competition for financial services is strong, with over 60 financial institutions dividing \$40 billion worth of deposits among them as of June 30, 2003. The top three banks (members of nation-wide organizations with over 100 offices each in the Phoenix-Mesa MSA) hold nearly 70% of the deposits. MBNA holds just under 1% of the area deposits. Because of MBNA's geographic dispersion across the MSA, they compete with banks of all sizes. For purposes of comparison in the LTD ratio, we have selected 14 financial institutions in the MSA above \$100 million in deposits, which are perceived to have a similar business-banking niche. This comparison excludes, for example, savings and loans and credit card banks in the AA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period for this CRA examination focuses on the prior two years (2001-2002) except for the LTD ratio, which is calculated through September 2003. Based on 2001-2002 information, knowledge of the bank's business strategy and conversations with the bank, we determined that primary product was commercial loans. After identifying the primary product, we took a random sample of 20 loans, and used them to determine the ratio of loans inside the AA. To evaluate the geographic and borrower distribution of loans, loans outside the AA were discarded and additional loans were then selected to fill in the sample of 20. Based on these samples, the bank's initial evaluation of its CRA performance in meeting the credit needs of the community is satisfactory, as supported below.

Loan-to-Deposit Ratio

The bank's average quarterly LTD ratio of 72% is reasonable given the bank's size, financial condition, and AA credit needs. It meets the standard for satisfactory performance. Uniform Bank Performance Reports from the second quarter 1999 through the third quarter 2003 were used to compare MBNA with 14 other banks.

| Bank | Average Quarterly Loan-to-Deposit Ratio |
|---------------------------------|---|
| MBNA | 72% |
| Average of 14 other banks in AA | 90% |
| Highest bank in range | 122% |
| Lowest bank in range | 48% |

Source: Uniform Bank Performance Report

Although not all 14 banks are similarly situated to MBNA, the bank does consider them all to be competitors within the AA. The other 14 banks include branches of nationwide banks which have significant other marketplaces from which to draw their loans and deposits. Much of the competition also has larger networks. MBNA has only eight offices in the AA compared to over 100 each for the top three banks, which also comprise 70% of the area deposits. MBNA and

three of the other smaller banks have less than 1% of the deposits each, and have no offices outside the AA. MBNA's LTD ratio has been increasing over the last three quarters.

Lending in Assessment Area

A substantial majority of the number and dollar amount of loans in the loan sample are inside the bank's AA. This exceeds the standards for satisfactory performance. Refer to the table below.

| Lending in Maricopa County | | | | | | | | | | |
|----------------------------|-----------------|------------|---------|----|-------|------------------|-------------|---------|---|-------|
| Loan Type | Number of Loans | | | | | Dollars of Loans | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$000 | % | \$000 | % | |
| Commercial | 19 | 95% | 1 | 5% | 20 | 3,175 | 100% | 3 | 0 | 3,178 |

Source: sample of loans

Lending to Businesses of Different Sizes

Given the demographics of the AA, the distribution of loans originated reflects a reasonable penetration among businesses of different sizes. Refer to the table below.

| Borrower Distribution of Loans to Businesses in Maricopa County | | |
|---|---------------|---------------|
| Business Revenues (or Sales) | ≤ \$1,000,000 | > \$1,000,000 |
| % of AA Businesses* | 68% | 7% |
| % of Bank Loans in AA by # | 65% | 35% |
| % of Bank Loans in AA by % \$ | 73% | 27% |

Source: Loan sample; Dunn & Bradstreet data. *25% of AA businesses did not report revenue data.

Geographic Distribution of Loans

The geographic distribution of loans to businesses reflects a reasonable dispersion throughout the AA. The analysis reflects lending in all categories of income tracts, with no conspicuous gaps. In both LMI tracts analyzed in the table on the next page, the number of loans is considered more representative than the dollar amount of the loans. In such a small sample, a single large or small loan can significantly skew the sample.

MBNA's penetration of the dollar amount of loans to businesses in low-income geographies actually exceeds the demographic. The penetration of the number of loans in low-income tracts meets the demographic.

MBNA's penetration of the dollar amount of loans to businesses in moderate-income geographies is substantially below the demographic. However, the penetration of the number of loans in moderate-income tracts is below, but near to the demographic.

| Geographic Distribution of Loans to Businesses in Maricopa County | | | | | | | | |
|---|--------------------|------------------|--------------------|------------------|--------------------|------------------|--------------------|------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Businesses | % of # of Loans | % of AA Businesses | % of # of Loans | % of AA Businesses | % of # of Loans | % of AA Businesses | % of # of Loans |
| Commercial | 5% | 5% | 20% | 15% | 37% | 40% | 38% | 40% |
| | | % of \$ of Loans |
| | | 15% | | 3% | | 36% | | 46% |

Source: Sample of loans; Dunn & Bradstreet data; census data.

Responses to Complaints

MBNA has not received any CRA related complaints since our last examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.