



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**January 28, 2008**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Bank of Arizona, National Association**

Charter Number 24588

5050 North 44th Street  
Phoenix, AZ 85018-0000

Office of the Comptroller of the Currency

Mid-Size Bank Supervision  
440 South LaSalle Street, Suite 2700  
Chicago, IL 60605-1073

**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 "Outstanding".**

The assigned rating is based on the following conclusions:

- The bank's loan-to-deposit ratio is excellent at 107 percent as of September 31, 2007, and increases to over 227 percent when considering loans originated and sold upstream to affiliate Bank of Oklahoma, N.A. (BOK). This ratio reflects a strong commitment to lending.
- A substantial majority of loans were originated within the bank's Assessment Area (AA).
- The distribution of loans to businesses and individuals of different income levels is adequate. However, the bank's community development lending enhances its lending to borrowers of different incomes and businesses of different sizes and helps the bank's performance to exceed the standard for satisfactory.
- The geographic distribution of loans reflects good dispersion throughout the AA, particularly small business loans in low- and moderate-income areas. In addition, community development lending enhances its geographic distribution of loans and helps the bank's performance exceed the standards for a satisfactory rating.
- The bank's performance in making qualified investments and providing community development services demonstrates excellent responsiveness to community development needs within the AA. The bank had a high level of investments and services during the evaluation period.
- There have been no complaints with respect to the bank's Community Reinvestment Act (CRA) performance.

**SCOPE OF EXAMINATION**

**Evaluation Period and Products Evaluated**

The evaluation of lending products included small business, home purchase, home improvement, and home refinance loans. We did not evaluate small farm loans, as this is not an identified credit need and is not a loan product for the bank. Affiliate originated loans that benefited the bank's AA were also considered during our evaluation at bank management's request. The evaluation period was from January 1, 2005 through December 31, 2006.

Small business lending is the primary business line for Bank of Arizona, N.A. (BAZ). However, home mortgage lending is not a significant business line with only 63 home purchase mortgages originated during the 2005/2006 evaluation period. Therefore, more weight was given to small business lending than home mortgage lending when evaluating lending performance. Small business lending represents 85 percent of the bank's total reported loans in the Phoenix AA.

In addition to the bank's lending performance, management requested that we evaluate community development activities. Community development loans, investments, and services were reviewed from the date of the bank's acquisition (April 16, 2005) through the date of this review (January 28, 2008).

### **Data Integrity**

Prior to this CRA examination, OCC personnel verified the accuracy of data made available to the public in accordance with the Home Mortgage Disclosure Act (HMDA) and CRA. Public data includes home mortgage lending and small loans to businesses and farms information. In addition, non-public data submitted by bank management for community development loans, services, and investments were reviewed to ensure they qualified as community development. Based on the verification work performed, all reported lending data is considered accurate. With the exception of small loans to farms, all the data reported for the above categories were used in this evaluation.

### **Selection of Review Areas**

The Phoenix AA (Maricopa County) was selected for review over the evaluation period of January 1, 2005 through December 31, 2006. During this period, BAZ had only one AA (the Phoenix AA) which included two full service locations. In mid-2007, the bank's loan production office was converted to a full service branch resulting in a second AA (the Tucson AA consisting of Pima County). Our evaluation of community development activities included both AAs for the period of April 16, 2005 through January 28, 2008.

## **DESCRIPTION OF INSTITUTION**

BAZ is a \$199 million financial institution headquartered in Phoenix, Arizona. The bank is a wholly-owned subsidiary of BOK Financial Corporation (BOKF) a \$20 billion regional multi-bank holding company, headquartered in Tulsa, Oklahoma. BOKF acquired the outstanding shares of Valley Commerce Bancorp Ltd., thereby indirectly acquiring Valley Commerce Bank in April 2005, giving BOKF its first full-service banking presence in Phoenix, Arizona. At acquisition, Valley Commerce had assets of \$152 million, net loans of \$89 million and deposits of \$112 million. With two locations in Maricopa County, Valley Commerce Bank became Bank of Arizona, N.A. The following table details BAZ's loan portfolio composition as of December 31, 2007:

| <b>Loan Portfolio Composition as of December 31, 2007</b> |                 |             |
|---|-----------------|-------------|
| <b>Loan Category</b>                                      | <b>\$ (000)</b> | <b>%</b>    |
| Commercial Real Estate                                    | 62,080          | 40%         |
| Residential Real Estate                                   | 40,632          | 26%         |
| Commercial and Industrial                                 | 45,558          | 30%         |
| Individual Loans  | 4,603           | 3%          |
| Other   | 486             | 1%          |
| <b>Total</b>  | <b>153,359</b>  | <b>100%</b> |

Source: Decemberr31, 2007 Report of Condition and Income

In 2006, BAZ opened a loan production office in Tucson, which became a full-service branch in mid-2007. The bank now has branch locations in Phoenix, Scottsdale, and Tucson. The Phoenix branch has a drive-thru facility.

There are no known legal, financial, or other factors impeding management's ability to help meet the credit needs of the AA. The last review of the bank's performance under CRA was completed as of November 26, 2001 under the name Valley Commerce Bank prior to purchase by BOKF. That examination was conducted by the FDIC, and resulted in a rating of "Satisfactory".

BOKF also owns banks in Colorado (Colorado State Bank & Trust, N.A.), Kansas (Bank of Kansas City, N.A.), Arkansas (Bank of Arkansas, N.A.), New Mexico (Bank of Albuquerque, N.A.), Oklahoma (Bank of Oklahoma, N.A.) and Texas (Bank of Texas, N.A.). Other business units include BOSCO, Inc. (a retail brokerage unit), TransFund electronic funds transfer network, and AXIA Investment Management. BOKF employs over 3,600 people.

As with all BOKF bank affiliates, BAZ is primarily a commercial middle-market bank whose strategy centers on commercial and industrial lending and wealth management. Loan products include energy, commercial and industrial, real estate, health care, and small business lending through the commercial lending divisions of the bank. They also offer private financial services, trust, capital markets, retail brokerage, and consumer retail services through the consumer and wealth management division. BOKF now has full-service banks located in seven states, delivers investment brokerage services in ten states, and operates an electronic funds transfer network that spans eleven states.

## **DESCRIPTION OF ASSESSMENT AREA**

BAZ has defined its AA as Maricopa County, which is located in the Phoenix-Mesa-Scottsdale Metropolitan Statistical Area (MSA). Maricopa County contains 663 census tracts, of which 40 tracts are designated as low-income, 181 tracts are moderate-income, 230 tracts are middle-income, 208 tracts are upper-income, and 4 tracts do not report data and are identified as not applicable.

According to the 2000 U.S. Census data, Maricopa County has a population of 3,072,149. The median family income for the MSA was \$51,172. HUD's 2006 updated MSA median family income is \$60,100. This is the income used to determine the income level of families in the MSA. Households below the poverty level total 109,392 or 9.65 percent, and households that

receive public assistance total 24,866 or 2.2 percent of the total number of households. Of the 1,250,231 total housing units available in the AA, 764,563 or 61 percent are owner-occupied. Refer to the following table for additional information relating to the bank's Phoenix AA:

| <b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b> |           |
|---|-----------|
| Population  |           |
| Number of Families                                    | 768,800   |
| Number of Households                                  | 1,133,048 |
| Geographies   |           |
| Number of Census Tracts/BNA                           | 663       |
| % Low-Income Census Tracts/BNA                        | 6.03%     |
| % Moderate-Income Census Tracts/BNA                   | 27.30%    |
| % Middle-Income Census Tracts/BNA                     | 34.69%    |
| % Upper-Income Census Tracts/BNA                      | 31.37%    |
| % N/A*  | 0.60%     |
| Median Family Income (MFI)                            |           |
| 2000 MFI for AA                                       | \$51,172  |
| 2006 HUD-Adjusted MFI                                 | \$60,100  |
| Economic Indicators                                   |           |
| Unemployment Rate                                     | 2.31%     |
| 2000 Median Housing Value                             | \$130,648 |
| % of Households Below Poverty Level                   | 9.65%     |

Source: 2000 Census data and 2006 HUD updated income data.

\* The N/A category consists of geographies that have not been assigned an income classification.

The major industries in the Phoenix area include education, healthcare and social assistance, professional and business services, and construction. Unemployment in the Phoenix area has been on the rise over the past several years with steady increases in the overall unemployment rate since 2000. The current unemployment rate, according to October 2007 Census Bureau information, is approximately 3.5 percent.

Banking is very competitive in Maricopa County. Wells Fargo, JP Morgan Chase, and Bank of America collectively hold 51 percent of the deposit market share in the Phoenix region. The next four largest institutions make up another 22 percent of the deposit market share. In total, these larger institutions control 73 percent of the deposit market share. This is consistent with their branch network, which represents 79 percent of all branches in the Phoenix region.

During December 2007, we made a community contact with the president of a non-profit organization dedicated to economic development by providing affordable financing for Arizona businesses. The company is one of the largest SBA lenders in Arizona and has lent over \$600 million since inception. The contact stated there is a need for small business loans. SBA loans provide small businesses access to capital that otherwise might not be available. The contact indicated that opportunities for banks to participate in community development and financing programs are good, and that involvement of local institutions has been strong.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

BAZ's loan-to-deposit ratio of 107 percent at September 30, 2007 exceeds the standard for satisfactory performance in this evaluation element. BAZ's lending volumes have increased significantly under BOKF's ownership. The loan-to-deposit ratio has increased from 68 percent in April 2005 when BOKF acquired the bank. BAZ's affiliate relationship with parent BOKF gives them the ability to originate larger loans, sell positions upstream, and thereby be more competitive for middle-market loans. At December 31, 2007, participations sold to BOK totaled \$135 million. Adding back loans originated by BAZ and sold to BOK results in a loan-to-deposit ratio of 227 percent.

### Lending in Assessment Area

BAZ's lending in its AA exceeds the standard for satisfactory performance. A substantial majority of the number and dollar amount of home mortgage and small business loans were originated within the bank's AA. As depicted in the table below, 96 percent of the number and 95 percent of the dollar amount of loans were originated in BAZ's AA.

| <b>Lending in Phoenix AA</b> |                 |            |           |           |            |                          |            |                |           |                  |
|------------------------------|-----------------|------------|-----------|-----------|------------|--------------------------|------------|----------------|-----------|------------------|
| Loan Type                    | Number of Loans |            |           |           |            | Dollars of Loans (000's) |            |                |           |                  |
|                              | Inside          |            | Outside   |           | Total      | Inside                   |            | Outside        |           | Total            |
|                              | #               | %          | #         | %         |            | \$                       | %          | \$             | %         |                  |
| Home Mortgage                | 55              | 87%        | 8         | 13%       | 63         | \$35,916                 | 91%        | \$3,432        | 9%        | \$39,348         |
| Small Business               | 309             | 97%        | 9         | 3%        | 318        | \$76,125                 | 96%        | \$2,908        | 4%        | \$79,033         |
| <b>Totals</b>                | <b>364</b>      | <b>96%</b> | <b>17</b> | <b>4%</b> | <b>381</b> | <b>\$112,041</b>         | <b>95%</b> | <b>\$6,340</b> | <b>5%</b> | <b>\$118,381</b> |

Source: Data reported under 2005-2006 CRA and HMDA loans.

### Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

BAZ's borrower distribution of small business and home mortgage loans is satisfactory, and meets the standard for satisfactory performance when considering performance context issues. The bank's community development lending enhances its lending to borrowers of different incomes and businesses of different sizes, and helps performance exceed the standard for satisfactory.

BAZ's borrower distribution of loans to businesses with revenues of \$1 million or less was adequate. The percentage of bank loans to businesses with revenues of \$1 million or less was somewhat lower than the percentage of reporting businesses with revenues of \$1 million or less in the AA. Note that 31 percent of the businesses in the AA did not report income data.

| <b>Borrower Distribution of Loans to Businesses</b> |              |              |                         |       |
|---|--------------|--------------|-------------------------|-------|
| Business Revenues (or Sales)                        | ≤\$1,000,000 | >\$1,000,000 | Unavailable/<br>Unknown | Total |
| % of AA Businesses                                  | 64%          | 5%           | 31%                     | 100%  |
| % of Bank Loans in AA by #                          | 45%          | 53%          | 2%                      | 100%  |
| % of Bank Loans in AA by \$                         | 36%          | 61%          | 3%                      | 100%  |

Source: Data reported under 2005-2006 CRA, Dunn and Bradstreet data. 31 percent of the businesses did not report income data.

Mortgage lending is not a primary loan product for BAZ with only 63 home mortgage loans originated during 2005 and 2006. Mortgage lending needs in the AA are met by large financial institutions including Wells Fargo, J. P. Morgan Chase, and Bank of America who, with the next top four lenders, collectively control 73 percent of the deposit market share in Phoenix. Phoenix has a large number of mortgage brokers. Of the top 393 Home Mortgage Disclosure Act (HMDA) originators, 253 or 64 percent of the institutions represented appear to be brokers. BAZ has only 0.21 percent of the deposit market share in the AA.

The bank’s distribution of home mortgage loans is adequate in light of the performance context considerations mentioned above. The bank did not originate home purchase or home refinance loans to low-income individuals, but did extend home improvement loans to low-income individuals. Home mortgage lending penetration to moderate-income individuals was better but still below the percentage of moderate-income families in the AA. Opportunities to lend to low- and moderate-income individuals in the Phoenix AA are difficult as a low-income person earns less than \$30,000, and is estimated to be able to afford a house of only \$87,000 without having total costs exceeding 30 percent of annual household income. According to the 2000 Census, the average median housing cost in the Phoenix area is \$131,000.

| <b>2005-2006 Borrower Distribution of Residential Real Estate Loans in Phoenix AA</b> |                  |                      |                  |                      |                  |                      |                  |                      |
|---|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| <b>Borrower Income Level</b>  | <b>Low</b>       |                      | <b>Moderate</b>  |                      | <b>Middle</b>    |                      | <b>Upper</b>     |                      |
|   | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans |
| Home Purchase   | 19.09%           | 0.00%                | 18.51%           | 4.00%                | 21.75%           | 8.00%                | 40.65%           | 88.00%               |
| Home Improvement  | 19.09%           | 10.00%               | 18.51%           | 10.00%               | 21.75%           | 10.00%               | 40.65%           | 70.00%               |
| Home Refinance  | 19.09%           | 0.00%                | 18.51%           | 5.88%                | 21.75%           | 11.76%               | 40.5%            | 82.36%               |

Source: Data reported under 2005-2006 HMDA; U.S. Census data.

The bank had an excellent level of community development loans. During the evaluation period, BAZ originated 11 community development loans totaling \$23.1 million. Four loans totaling \$3.8 million were extended for affordable housing. The bank also originated two loans for a total of \$3.8 million for the purposes of economic development.

### Geographic Distribution of Loans

BAZ’s geographic distribution of loans is satisfactory and meets the standard for satisfactory performance. When community development lending is considered, these loans enhance the bank’s performance under this criterion, leading to performance that exceeded satisfactory.

The geographic distribution of small business loans is excellent. Distribution to businesses located in low-income tracts exceeds the percentage of small businesses located in those tracts. The distribution to businesses in moderate-income tracts is good as it is equal to the percentage of small businesses located in those tracts.

| 2005-2006 Geographic Distribution of Loans to Businesses in Phoenix 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 |
| Small Business Loans   | 5.29%              | 6.17%                | 22.91%             | 22.53%               | 31.73%             | 32.41%               | 40.01%             | 38.89%               |

Source: Data reported under 2005-2006 CRA; Dunn and Bradstreet data.

Community development loans extended by BAZ that helped revitalize and stabilize low-and moderate-income areas of the AA, as well as create jobs in these areas, include an \$8.7 million loan to construct three single-story industrial buildings. The subject property will create at least 25 new low- to moderate-income positions. Also, the bank made a \$2.4 million loan to purchase and expand a newly constructed office/industrial building and hanger facility. The facility expansion will create a 32 percent increase in full-time, low- to moderate-income positions making below the moderate-income level of \$48,000 annually. Both of these properties are located in moderate-income census tracts, and are within a Federally Designated Enterprise Zone.

| 2005-2006 Geographic Distribution of Residential Real Estate Loans in Phoenix AA |                                |                      |                                |                      |                                |                      |                                |                      |
|--|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| Census Tract Income Level  | Low                            |                      | Moderate                       |                      | Middle                         |                      | Upper                          |                      |
| Loan type  | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans |
| Home Purchase  | 1.53%                          | 0.00%                | 21.47%                         | 0.00%                | 40.34%                         | 14.81%               | 36.66%                         | 85.19%               |
| Home Improvement   | 1.53%                          | 0.00%                | 21.47%                         | 10.00%               | 40.34%                         | 40.00%               | 36.66%                         | 50.00%               |
| Home Refinance   | 1.53%                          | 0.00%                | 21.47%                         | 0.00%                | 40.34%                         | 38.89%               | 36.66%                         | 61.11%               |

Source: Data reported under 2005-2006 HMDA; 2000 U.S. Census data.



The geographic distribution of home mortgage loans is adequate in light of the performance context issues discussed above. Furthermore, opportunities to extend home mortgage products to the low-income tracts are very limited with only 1.53 percent owner-occupied housing in those tracts.

### **Response to Complaints**

There were no consumer complaints related to the bank's Community Reinvestment Act performance during the evaluation period.

### **Qualified Investments and Services**

The bank's investment and service performance within the Phoenix and Tucson AAs is excellent, and had a positive impact on the overall rating. Qualified investments and services were evaluated from the bank's acquisition date of April 16, 2005 through the examination date of January 28, 2008, and included community development activities conducted in the Tucson AA (Pima County). The Tucson AA was created when the bank's loan production office was converted into a full service branch in 2007.

Qualified investments and services address many of the critical community needs of the bank's AAs such as affordable housing, economic development, small business capital, and social services to low- and moderate-income people. The sentence Pat suggested he revised is just taken out – is that ok, or should the revision be inserted here?

### **Community Development Investments**

The bank has an excellent level of community development investments. Qualified investments totaled \$2.0 million.

BAZ has invested \$918,000 in qualified mortgage-backed securities. BOK has developed a program to purchase pools of affordable housing mortgages originated in its AAs, and the bank continues to be active in this program. BOKF's Capital Markets Investment Manager has distributed BAZ's AA information to various mortgage originators and securities dealers who, in turn, provide lists of new mortgages available for sale. The manager then selects mortgages and the originator or broker pools them into mortgage-backed securities which are then purchased by BOK. BOKF's affiliate banks then split the security based on the location of the mortgage originations. BOKF has developed a model in which city, state, and income information is verified to ensure that each mortgage qualifies.

BOKF recently created a for-profit community development fund (BOKFCDF) for the purpose of promoting constructive economic and industrial development, promoting creation and retention of jobs, and engaging in other public welfare investments to meet the needs of the communities served. On behalf of BAZ, the BOKFCDF made an equity investment of \$500,000 in the Solomon Hess SBA Fund, a small business investment corporation. The fund is a Community Development Entity certified by the Community Development Financial Institutions Fund of the United States Department of Treasury. The fund's mission is to promote job

creation, retention and improvement in low- or moderate-income areas, or for low- and moderate-income persons employed by small businesses, by creating greater financial liquidity and a lower cost of capital within the Small Business Administration Section 7(a) loans.

During the evaluation period, an additional \$500,000 was invested in the BAZ communities specifically targeting affordable housing and economic development. These funds were invested as part of a \$10 million community development equity investment BOKF made on behalf of itself and its bank affiliates with Community Capital Management. This fund's strategy is to provide income and preserve capital through investments in investment-grade, fixed-income securities. These investments support community development activities such as low-income housing, affordable healthcare, and job training. BAZ's equity investment was used to purchase a \$138,000 Freddie Mac mortgage loan to a low- or moderate-income person, and a \$362,000 GNMA pool-loan used to finance an affordable Low Income Housing Tax Credit multi-family housing project. Both loans are located in BAZ's AAs.

During the evaluation period, an additional \$50,000 was invested in the BOKFCDF by BOKF on behalf of BAZ. The funds are specifically targeted to the bank's AAs.

BOKF has created an innovative program called Adopt-an-Agency Program for all affiliates that focuses efforts on building stronger partnerships with non-profit agencies in the communities it serves. BOKF directs resources (both in dollars and volunteer hours) to these agencies. These agencies provide affordable housing, community services for early childhood development, financial education, and economic development. During the evaluation period, BAZ contributed over \$40,000 in grants and contributions to various qualified non-profit agencies.

### **Community Development Services**

The level of community development services is outstanding. Bank officers have served in leadership positions with organizations that provide health and human services, youth programs and activities, and organizations that are involved in economic and small business development.

During the evaluation period, BAZ employees performed over 546 hours of qualified service activities. Approximately 329 hours of community service activities benefited health and human services, 207 hours benefited youth programs and services, and 10 hours benefited economic and small business development.

### **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.