

PUBLIC DISCLOSURE

May 1, 2000

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Union Bank of Arizona, N.A.
23330**

**3631 East Baseline Road
Gilbert, AZ 85234**

**Comptroller of the Currency
Phoenix Field Office
9633 South 48th Street, Suite 265
Phoenix, AZ 85044**

Note: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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 CRA performance of Union Bank of Arizona, N.A. prepared by The Office of the Comptroller of the Currency, as of May 1, 2000. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated Satisfactory.

Union Bank of Arizona, N.A. (UBAZ) has a satisfactory record of meeting the credit needs of its assessment area in a manner consistent with its resources and capabilities.

- The loan-to-deposit ratio exceeds the standards for a satisfactory rating.
- The bank extended 100% of the loans sampled in the assessment area.
- The distribution of loans to businesses of different sizes meets the standards for a satisfactory rating.
- The geographic distribution of loans to businesses is reasonable, given the bank's performance context.
- There were no CRA complaints against the bank.
- The bank has made qualifying investments in a CDC and an SBIC, which enhances their performance under the Community Reinvestment Act.

DESCRIPTION OF INSTITUTION:

Union Bank of Arizona, N.A. (UBAZ) was chartered May 1, 1998. It is primarily owned by Heartland Bancshares, Inc., which is controlled by President Dan Dunlap, and a voting trust controlled by Mike Dunlap. Total asset size of the bank as of March 31, 2000 was \$20.6 million. Net loans to assets were 66% at that date.

UBAZ's one office is located in the city of Gilbert, Arizona. The bank has 17 employees, including President/CEO Dan Dunlap, who has been with the bank since inception.

UBAZ's primary strategy is small business lending, with an emphasis on Small Business Administration (SBA) guaranteed loans. The bank is a Certified Lender Participant (CLP) SBA lender. The bank generally only does consumer or residential loans as a service to existing business customers. The following table shows the number and dollar amount of loans in the bank's portfolio as of April 14, 2000.

Loan Type	# Loans	% # Loans	Volume (\$000)	% \$ Volume
Consumer	17	13%	154	1%
Commercial	115	87%	13,797	99%
Total	132	100%	13,951	100%

For the most part, the bank's financial condition is acceptable and does not hinder its ability to service customer needs. However, the bank is still in a "start up" phase, and has not yet turned a profit in its first seven quarters. Year-to-date net loss through March 31, 2000 was \$77 thousand, following a net loss of \$165 thousand reported for year end 1999. In addition, UBAZ's efforts to make loans to small business customers and to penetrate its entire assessment area is affected by its lack of established market presence, its limited staff size, and the strong level of competition within the assessment area.

DESCRIPTION OF MARICOPA COUNTY ASSESSMENT AREA:

The Phoenix-Mesa Metropolitan Statistical Area (MSA) is comprised of Maricopa and Pinal Counties. UBAZ's assessment area is Maricopa County, Arizona. Maricopa County includes the cities of Phoenix, and Mesa as well as numerous smaller communities including Glendale, Scottsdale, Tempe, Chandler, Peoria, and Gilbert. UBAZ's office is located in the far eastern portion of the county, in Gilbert, AZ. Gilbert is a predominately upper- and middle-income area. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

Maricopa County contains 466 census tracts and measures approximately 9,200 square miles. Approximately 29 percent of the county is owned individually or by corporation. The remaining 71 percent is owned by the U. S. Bureau of Land Management, the U.S. Forest Service, the State of Arizona, and Native American Reservation lands.

More than half of the state's population is in Maricopa County. As of 1999, the population of Maricopa County was over 2.8 million. According to Census Bureau reports, the county was the second fastest growing county in the country during 1999. The 1990 median family income was \$35,425. The area is in the midst of an economic growth period supported by thriving high tech, tourism, biomedical and transportation industries. The county's unemployment rate has

remained below 3%. In 1999 the Department of Housing and Urban Development (HUD) estimated the median family income for this MSA to be \$50,200. The median home value was \$87,219.

We conducted a review of prior community contacts performed by the OCC and other regulatory agencies. Additionally, we conducted an interview with a local trade association. The community needs identified within the assessment area included small business lending and affordable housing. Competition in the financial industry is strong within the bank’s assessment area. However, several bank mergers have taken place over the last eight years, which some community contacts say has resulted in a lack of local decision-making ability. A common complaint of governmental and community representatives is that many of the decisions made, from loan approvals to branch closures, no longer reflect a sensitivity to Maricopa County or even Arizona issues. Still, several large multi-state banking companies dominate the market. There are also numerous community banks in the county, although UBAZ is the only local bank in Gilbert. The community contact in Gilbert was highly complimentary of UBAZ for its participation in the local market, not only for lending, but in other community participation such as small business training efforts.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank only has a single office, limited staff, and is in a competitive banking environment. We compared the bank to a variety of competitors, using readily available data for the last eight quarters. We looked at all other banks under \$50 million in Maricopa County. Because of the bank’s special niche in small business lending, and particularly Small Business Administration (SBA) loans, we also looked at other banks in Maricopa who do a significant amount of SBA lending. The results are shown in the following table. The bank exceeds the standards for satisfactory for this performance criteria.

Subject Bank and Customized Peer Groups:	Loan-to-deposit ratio last 8 quarters:
Union Bank of Arizona, N.A.*	91%
All other banks** in Maricopa County under \$50 million	62%
Banks in Maricopa County with significant SBA lending	72%

*Only 7 quarters are used for the subject, because the bank was just chartered May 1, 1998.

**Excluding credit card banks.

Lending Within the Assessment Area

We reviewed 20 commercial loans totaling \$4.7 million. Consumer lending is not a major product for the bank, so we did not review any consumer loans. All of the loans in our commercial sample were within the bank’s assessment area. Given the large size of the assessment area in relation to the size and location of the bank, this meets the standards for satisfactory for this performance criteria.

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

We did not review consumer loans, so borrower income was not considered. Loans to small businesses have been identified as a community credit need. The distribution of loans to businesses of different sizes is reasonable given the bank’s competitive environment and management’s business strategy. Of the 20 loans reviewed, 55% of them were to businesses with gross revenues under \$1 million. This is lower than the 71% area demographics for businesses with gross revenues under \$1 million. However, there is a 19% “revenue not reported” factor in the area demographics. In addition, based on the dollar amount of these 20 loans, 73% of the dollars loaned by this bank went to businesses with gross revenues under \$1 million, which is slightly higher than the area demographics. These statistics are summarized in the following table. In a sub-category of loans to businesses of less than \$1 million gross revenues, the bank has the majority of its loans to very small businesses with less than \$100 thousand gross revenues. On balance, the bank meets the standards for satisfactory for this performance criteria.

Lending to Businesses of Different Sizes

Percent of Number and Dollar of Loans in Sample:	Business Gross Revenues (\$ 000s)		
	< 100	100 - 1,000	>1,000
% of number of loans:	40%	15%	45%
% of \$ amount of loans:	60%	13%	27%
<u>Area Demographics</u> % of businesses by size:	<u>< 1,000</u> 71%		<u>> 1,000</u> 10%

Geographic Distribution of Loans

The geographic distribution of commercial loans by UBAZ reflects reasonable penetration throughout the assessment area. No consumer loans were reviewed. The following table reflects the distribution of commercial loans by census tract.

Commercial Loan Distribution by Census Tract (within assessment area)

Census Tract Designation	UBAZ’s Actual Lending				UBAZ’s Assessment Area	
	# of Loans	% of # Loans	Volume (\$000)	% Volume	# of Census Tracts	% of Census Tracts
Low-Income	1	5%	20	1%	27	6%
Moderate-Income	2	10%	708	15%	108	23%
Middle-Income	6	30%	2,330	49%	178	38%
Upper-Income	11	55%	1,663	35%	149	32%
Not Available	NA	NA	NA	NA	4	1%
Total	20	100%	4,721	100%	466	100%

As shown in the table, 6% of the census tracts in the area are low-income and 23% are moderate-income. In the business loan sample reviewed, the number and dollar amount of loans made by the bank are less than the demographics of the area. However, the bank is in an upper-income

tract, surrounded by other upper- and middle-income tracts. There are a number of moderate-income tracts nearby, but based on discussions with bank management a substantial portion of these will quite likely show up as upper-income tracts with the 2000 census. The area, which was previously largely agricultural (orange groves) has now been converted to high-end residential.

Response to Complaints

UBAZ did not receive any CRA-related complaints during the evaluation period.

Investments

UBAZ's qualified investments enhance the institution's CRA performance. The bank invested \$25 thousand in the Arizona Multi-Bank Community Development Corporation (CDC). This organization is a nonprofit corporation established to operate an investment pool of funds to loan to small businesses which might not otherwise qualify for a bank loan. The bank has also made their 40% initial contribution of \$60 thousand to the Magnet Capital Small Business Investment Company (SBIC). The SBIC, based in Phoenix, is in the approval process stage to receive their SBIC license. This limited partnership will be making long term loans and equity investments in small to medium-sized companies based in the southwest region of the United States. Although the investment will not be used by the entity to make loans exclusively in the bank's assessment area, it does serve a broader regional area that includes the institution's assessment area. The bank's total investment, once the license is approved, will be \$150 thousand. There are no other small banks investing in this SBIC; all the other investors are larger national and regional banks.

Services

The bank has only one office and an ATM at that office. In an effort to provide more accessible services to its customers, the bank negotiated a contract with Wells Fargo Bank to share its ATM network. UBAZ customers may make deposits and withdrawals at any of the in-bank Wells Fargo ATMs without any transaction fee.

RECORD OF COMPLIANCE WITH ANTI-DISCRIMINATION LAW

The results of the fair lending examination did not reveal any violations of antidiscrimination laws and the regulations as they apply to race and ethnicity. We used the alternative fair lending procedures, which are used when there are not enough consumer loans to test. These steps focus on fair lending policies and procedures.