



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

PUBLIC DISCLOSURE

October 2, 2000

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Stearns Bank Arizona, N.A.
23932**

**9225 East Shea Blvd.
Scottsdale, AZ 85260**

**Comptroller of the Currency
 Fargo Field Office
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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 Stearns Bank Arizona, N.A., Scottsdale, Arizona prepared by The Office of the Comptroller of the Currency, as of October 2, 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.

Stearns Bank Arizona, N.A. has satisfactory record of meeting the credit needs of its assessment area.

- The loan-to-deposit ratio meets the standards for a satisfactory rating.
- The bank's level of lending within the assessment area is good.
- The distribution of loans to businesses of different sizes is reasonable.
- The geographic distribution of loans to businesses is satisfactory.

DESCRIPTION OF INSTITUTION:

Stearns Bank Arizona, N.A. (SBAZ) converted to a national bank charter on October 8, 1999. The bank was originally opened as a state bank in September 1997. SBAZ is 95% owned by Stearns Financial Services, Inc. (SFS), St. Cloud, Minnesota, an \$800 million holding company with 5 national banks in Minnesota. SFS's primary shareholders are Norman C. Skalicky and an employee stock ownership plan. Total asset size of the bank was \$55 million as of June 30, 2000. This is the first time the bank has been evaluated under the CRA.

SBAZ's one office is located in the city of Scottsdale, Arizona. The bank has 16 employees, including President/CEO Tom Euen, who has been with the bank since February 17, 2000.

SBAZ is a business-oriented bank. Products offered include commercial, commercial real estate, and construction/development loans. The bank is a Certified Small Business Administration lender. Consumer and residential products are incidental to SBAZ's business. The bank used to offer leasing and indirect auto lending, but these product lines have been discontinued. Given the bank's business emphasis, consumer and residential loans were not reviewed during this examination. The following table shows the distribution of the bank's loan portfolio as of August 31, 2000.

Loan Type	Volume (\$000)	% \$ Volume
Commercial RE	18,774	45%
Construction and Development	12,258	30%
Commercial/SBA	6,870	17%
Residential RE	1,573	4%
Consumer	1,036	2%
Other	902	2%

SBAZ's financial condition is satisfactory and does not hinder its ability to service customer needs. Factors that may impact the bank's ability to make loans to small businesses and to penetrate its entire assessment area include its small size, newness to the market, and limited delivery system. Competition in the assessment area is strong.

DESCRIPTION OF MARICOPA COUNTY ASSESSMENT AREA:

The Phoenix-Mesa Metropolitan Statistical Area (MSA) is comprised of Maricopa and Pinal Counties. SBAZ's assessment area (AA) is Maricopa County, Arizona. Maricopa County includes the cities of Phoenix, Mesa, Glendale, Scottsdale, Tempe, Chandler, Peoria, and Gilbert. SBAZ's office is located in the northeastern portion of the county, in Scottsdale, AZ. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

Competition for financial services is strong in Maricopa County, with the banking market dominated by three large multi-state institutions delivering banking services through an extensive retail network of over 600 branches. These three banks control over 75% of the deposit base in Maricopa County. More than 30 other financial institutions are also active in the market. These competitors range in size from \$5 million to over \$1 billion.

Maricopa County contains 466 census tracts and measures approximately 9,200 square miles. Approximately 29% of the county is owned individually or by corporation. The remaining 71% 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 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%. The 1990 median family income for this MSA was \$35,425. In 2000, the Department of Housing and Urban Development (HUD) estimated the median family income for this MSA to be \$53,100.

We conducted a review of prior community contacts performed by the OCC and other regulatory agencies. Additionally, we conducted an interview with an official from the local U.S. Small Business Administration Office (SBA). The community needs identified within the AA include small business and affordable housing lending. The market for small business loans is strong, and includes a demand for very small loans of \$20,000 to \$100,000 in size. According to our contact, several large banking companies dominate the market, and are not always willing to make these very small dollar loans. The SBA is looking to the smaller banks in the community, and to alternative sources, to help meet those needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

- The bank's loan-to-deposit (LTD) ratio meets the standards for satisfactory performance.

SBAZ's level of lending is satisfactory in relation to other banks under \$100 million in Maricopa county. The bank's average LTD ratio for the last 12 quarters was 78%, as compared to a 72% average LTD ratio for similar size banks in Maricopa County. SBAZ's LTD ratio was 82% as of June 30, 2000.

Lending Within the Assessment Area

- The bank's level of lending within its assessment area is good.

We sampled 29 small business loans to determine the level of loans made within the bank's AA. 93% of the number and 98% of the dollar of loans in our sample were originated within the bank's assessment area.

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

- The distribution of loans to businesses of different sizes is reasonable.

Bank management provided us with information on business loans originated from January 1999 to present. We verified a portion of this data for accuracy. Of the 81 small business loans originated since January 1999, 69% of the number (and 57% of the dollar) of loans were made to business with revenues of less than \$1 million. Although this percentage is somewhat low when compared to the business demographics of the area, it is considered reasonable given the bank's small size, limited delivery system, and newness to the market. The following chart reflects the distribution of loans by business revenue size.

Lending to Businesses of Different Sizes

Gross Revenue Size	% of Businesses in the AA	Small Business Loans *			
		Number	Percent	\$ 000	Percent
<= \$1 Million	85%	56	69%	7,408	57%
> \$1 Million	10%	25	31%	5,544	43%
Total**	95%	81	100%	12,952	100%

* "Small business loan" is defined in FFIEC Call Report instructions

** 5% of Businesses in the AA did not report income information

Two other factors add support to the bank's reasonable level of performance. First, 64% of loans made to businesses with revenues of less than \$1 million were made in amounts of \$100,000 or less. Very small business loans were identified as a credit need by our community contact. Second, management provided data on at least 21 other loans that were made to individuals for business purposes, but secured by personal residences. Although these loans do not qualify under the small business loan definition, they do demonstrate another way the bank meets small business needs in the community.

Geographic Distribution of Loans

- The geographic distribution of loans to businesses is satisfactory.

We sampled 27 small business loans to determine the distribution of loans in the bank's AA. The following table reflects the distribution of small business loans by census tract.

Geographic Distribution of Small Business Loans

Income Level of Tract	% of Businesses in AA	Small Business Loans*			
		Number	Percent	\$ 000	Percent
Low-Income	6%	1	4%	15	<1%
Moderate-Income	23%	3	11%	1,386	30%
Middle-Income	36%	13	48%	2,178	46%
Upper Income	35%	10	37%	1,120	24%
Total	100%	27	100%	4,699	100%

* "Small business loan" is defined in FFIEC Call Report instructions

In the business loan sample reviewed, the number and dollar amount of loans made by the bank reasonably reflects the demographics of the area. The overall volume of lending in low-income tracts was low; however, the percent of businesses located in these tracts was similarly low. Further, while the number of loans made in moderate-income tracts is slightly less than demographics, the dollar volume of loans made in these tracts exceeded the demographics.

Performance is particularly reasonable given the limitations posed by the bank's far North Scottsdale location and the bank's small size.

Response to Complaints

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

RECORD OF COMPLIANCE WITH ANTI-DISCRIMINATION LAW

A fair lending examination of the bank was not conducted during this review. We did perform a technical review of ECOA and did not identify any concerns. Additionally, no consumer complaints related to fair lending were noted.