



Comptroller of the Currency
Administrator of National Banks

Western District
Phoenix Duty Station
2929 North 44th Street, Suite 230
Phoenix, Arizona 85018

PUBLIC DISCLOSURE

**COMMUNITY REINVESTMENT ACT PERFORMANCE
EVALUATION**

January 30, 1997

**Biltmore Investors Bank, N.A.
Charter Number 18684
2425 E. Camelback Road
Phoenix, Arizona 85016**

<p>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.</p>

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 the 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 Community Reinvestment Act (CRA) performance of **Biltmore Investors Bank, N.A.** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of January 30, 1997. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION

The Institution is rated: Satisfactory

Summary conclusions for the bank's performance under the Lending, Investment, and Service tests:

Lending Test

- ▶ The bank exhibits an adequate record of serving the credit needs of its assessment area. The volume of small business loans is adequate given the size and business strategy of the bank. A majority of these loans are contained within its assessment area. The distribution of these loans reflect adequate penetration in the assessment area among retail customers of different income levels and business customers of different size.

Investment Test

- ▶ The bank has an adequate level of community development related investments that are responsive to the community's credit and economic development needs.

Service Test

- ▶ The bank's delivery systems are reasonably accessible to its assessment area. BIB's products and services are available at both branches. The bank offers alternative delivery systems in the form of ATM accessibility, bank-by-mail and phone, and a mobile branch. The bank has not opened or closed any offices since the last examination in January 1995.

The following table indicates the performance level of Biltmore Investors Bank, N.A. with respect to the lending, investment, and service tests.

PERFORMANCE LEVEL	Biltmore Investors Bank, N.A.		
	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory			
Low Satisfactory	X	X	X
Needs to Improve			
Substantial Noncompliance			

* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

DESCRIPTION OF INSTITUTION

Bank Profile

Biltmore Investors Bank, N.A. (BIB) is a wholly-owned subsidiary of Biltmore Bank Corporation. Johnson International, Inc. (JII) owns 100% of Biltmore Bank Corporation. JII is the financial arm of the Johnson Companies and is primarily held by the Samuel Johnson Family. JII consists of community banks in Wisconsin, an investors bank in Illinois, as asset management company in Wisconsin, a private bank in Switzerland, and a banking facility in the Grand Cayman Islands. JII reported assets of \$1.2 billion of banking assets as of December 31, 1996. Due to the size of the holding company, over \$1 billion, BIB elected to be evaluated under the large retail bank tests.

BIB's financial condition does not hinder its ability to service customer needs. However, BIB's branch locations and size hinders its ability to make large loans and penetrate its entire assessment area. BIB operates two banking offices in Phoenix, AZ. One is in Phoenix along the Camelback corridor between central Phoenix and Scottsdale, and another is in the Pinnacle Peak area of northern Scottsdale. BIB reported average assets of \$136.3M and \$136.2 million as of December 31, 1995 and 1996 respectively. Net income of \$722M and \$1.2 million were reported for the same time periods. BIB's return on average assets for year-end 1995 and 1996 was .52% and .91%, respectively.

As of December 31, 1996, loans comprised 93% of total deposits. The bank's loan portfolio breakdown is \$57 million in commercial loans, which is the bank's main focus; originated \$50 million in real estate-related loans, of which \$22 million are residential mortgages; \$2 million are home equity loans; and \$2 million in consumer loans.

Community Profile

BIB's assessment area includes the majority of Maricopa county, the largest MSA in Arizona. Based on 1990 Census Data, the Phoenix-Mesa MSA consists of 490 census tracts, of which BIB excludes the three outer most tracts on the west and southwest portion of the MSA. The Census Data estimates the Phoenix population at 2.2 million. Census Median Family Income is \$35,425. The following table shows the number and percent of census tracts by income level.

Biltmore Investors Bank Assessment Area Characteristics				
INCOME CHARACTERISTICS	Number of Census Tracts	% of total Census Tracts	Number of Families	% of Families
Low Income	31	6%	114,241	19.75%
Moderate Income	120	25%	106,193	18.36%
Middle Income	183	38%	133,838	23.14%
Upper Income	149	31%	224,103	38.75%
NA	4	1%	NA	NA
Total	487	100%	578,302	100.00%

Local economic conditions are good. Arizona ranks third in the nation with 5.4% job growth during 1995 and first in the nation with personal income growth of 10.4%. Unemployment has been low historically. The 1996 U.S. Department of Housing and Urban Development (HUD) estimated

median family income for the Phoenix MSA is \$45,000. The services and retail industry are the main providers of employment in the assessment area followed by government and manufacturing.

Competition in the banking industry is strong within the bank's assessment area. The market is dominated by four large multi-state banking companies. We reviewed prior community contacts performed by the OCC and other regulatory agencies. The needs within the assessment area include affordable housing, small business lending, and credit education programs.

OVERALL CONCLUSIONS WITH PERFORMANCE TESTS

The scope of the examination followed the Interagency CRA Examination Procedures for Large Retail Institutions effective July 1997. BIB elected to be examined under the revised performance tests contained in the CRA final rule. These tests include the Lending, Investment, and Services tests. The bank provided sufficient information for small business loans for 1996 and residential mortgage loans for 1995 and 1996. We did not analyze 1995 business loan data since the bank was not required to maintain it, and the bank did not provide the dollar amount of these loans.

BIB does not have any affiliates whose performance is reflected in this evaluation.

Lending Test

In assessing lending performance we focused on the bank's lending activity, assessment area concentration, geographic distribution of loans, borrower profile, responsiveness to the credit needs of low- and moderate-income geographies or small businesses, community development lending, and product flexibility.

Conclusions

The bank demonstrates adequate responsiveness to the credit needs within its assessment area.

- ▶ Approximately 95% of the bank's lending volume is within its assessment area.
- ▶ The geographic distribution of these loans reflects adequate penetration within the bank's service area.
- ▶ The distribution to individuals of different income levels and businesses of different sizes is adequate.
- ▶ No community development loans were noted.

Comments

Lending Activity:

BIB's lending level reflects good responsiveness to assessment area credit needs based on the size and location of its offices. The bank's loan-to-deposit ratio, which reflects total loans as a percentage of total deposits, has increased from 77% as of year-end 1995 to 93% as of year-end 1996. This ratio is significantly above the bank's peer average loan-to-deposit ratio of 67%. Loan growth over the last three years has averaged over 17%. The number of business loan originations has increased 43% between year-end 1995 and 1996.

Business lending is the primary lending strategy for BIB. During 1996, the bank originated 201 business loans for approximately \$47.8 million. This is a 44% increase in the number of business loan originations over 1995.

Residential mortgage lending is not the bank's primary lending focus, and therefore represents a smaller portion of the portfolio. HMDA reports show for year-end 1995 the bank originated 45

mortgages in the amount of \$7.3 million. For 1996 the number of loans declined to 29, a 35.5% decrease; however, the dollar amount increased to \$8.1 million.

Assessment Area:

BIB has a high percentage of its loan volume within its assessment area. More specifically, approximately 95% of the number of loans made by BIB during the evaluation period are within its assessment area.

Geographic Distribution of Loans:

The geographic distribution of loans reflects adequate penetration throughout the assessment area based on the size and location of the bank's offices.

1996 Geographic Distribution of Business Lending in the Bank's Assessment Area

Income Characteristics of Tracts	Biltmore's Actual Lending			Biltmore's Assessment Area	
	# of Business Loans	\$ of Business Loans	% of Business Loans	# of Census Tracts	% of Census Tracts
Low-income	22	\$3.0 Million	11%	31	6%
Moderate-income	41	\$10.3 Million	20%	120	25%
Middle-income	55	\$8.9 Million	27%	183	38%
Upper-income	83	\$25.6 Million	42%	149	31%
NA	0	0	0	4	1%
Total	201	\$47.8 Million	100%	487	100%

As the table above illustrates, the distribution of business loans corresponds to the demographics of its assessment area. Our analysis of the distribution of loans also shows that many loans to middle-income geographies are adjacent to low- and moderate-income geographies. These loans have a positive impact on the low- and moderate-income tracts as these businesses may provide employment and other stabilizing effects to those geographies.

**Geographic Distribution of Residential Lending in the Bank's
Assessment Area for 1995**

Income Characteristics of Tracts	Biltmore's Actual Lending		Biltmore's Assessment Area	
	# of Residential Loans	% of Residential Loans	# of Census Tracts	% of Census Tracts
Low-income	1	2.2%	31	6%
Moderate-income	0	0.0%	120	25%
Middle-income	7	15.6%	183	38%
Upper-income	37	82.2%	149	31%
NA	0	0.0%	4	1%
Total	45	100.0%	487	100%

**Geographic Distribution of Residential Lending in the Bank's
Assessment Area for 1996**

Income Characteristics of Tracts	Biltmore's Actual Lending		Biltmore's Assessment Area	
	# of Residential Loans	% of Residential Loans	# of Census Tracts	% of Census Tracts
Low-income	0	0.0%	31	6%
Moderate-income	4	13.8%	120	25%
Middle-income	2	8.0%	183	38%
Upper-income	23	92.2%	149	31%
NA	0	0.0%	4	1%
Total	45	100.0%	487	100%

The tables above illustrate that the bank's residential lending does not correspond to the demographics of the assessment area. This is due to the fact that residential mortgage lending is not the primary focus of the bank's business plan and also the location of their offices are predominantly in more affluent areas.

Borrowers Profile:

BIB's business lending reflects a reasonable distribution of business lending to businesses of different sizes. Approximately 35% of the number of business loans made were to business with revenues less than \$1 million. The table below breaks out the bank's distribution of loans based on the size of the loan. Furthermore, 79% of the number and 32% of the dollar volume of business loans were under \$250M in size which shows that the bank addressed the small business needs of its community.

Loan Counts and Amounts by Loan Category

LOAN VALUE CATEGORY	ORIGINATED			
	COUNT	% OF TOTAL	AMOUNT (000's)	% OF TOTAL
Less than or equal to \$100,000	110	55%	5,550	12%
Greater than \$100,000 and less than or equal to \$250,000	49	24%	9,389	20%
Greater than \$250,000	42	21%	32,461	68%
Total	201	100%	47,400	100%

The tables below represent the distribution of residential mortgage loans in relation to family income levels. They illustrate that the number of loans made do not correspond as well to family income levels as business loans. However, there has been improvement in 1996 over 1995. BIB purchased four low- to moderate-income mortgage loans in 1996 totaling \$206,000. These loans are part of the bank's desire to address identified credit needs within their assessment area.

Distribution of Residential Lending by Median Family Income Levels in the Bank's Assessment Area for 1995

Income Characteristics of Tracts	Biltmore's Actual Lending		Biltmore's Assessment Area	
	# of Residential Loans	% of Residential Loans	# of Families Based on Income Level	% of Family
Low-income	0	0.00%	114,241	19.76%
Moderate-income	2	4.44%	106,193	18.36%
Middle-income	2	4.44%	133,838	23.14%
Upper-income	40	88.90%	224,103	38.74%
NA	1	2.22%	NA	NA
Total	45	100.00%	578,302	100.00%

Distribution of Residential Lending by Median Family Income Levels in the Bank's Assessment Area for 1996

	Biltmore's Actual Lending		Biltmore's Assessment Area	
Income Characteristics of Tracts	# of Residential Loans	% of Residential Loans	# of Families Based on Income Level	% of Family
Low-income	3	10.35%	114,241	19.76%
Moderate-income	2	6.90%	106,193	18.36%
Middle-income	2	6.90%	133,838	23.14%
Upper-income	19	65.50%	224,103	38.74%
NA	3	10.35%	NA	NA
Total	29	100.00%	578,302	100.00%

Investment test

To assess the bank's performance under the investment test, we reviewed its investment and grant activity, its responsiveness to credit and community development needs, and its initiatives with community development.

Conclusions

- ▶ The institution has an adequate level of community development-related investments and grants over the review period given its size.
- ▶ Responsiveness to community credit and development needs is adequate.
- ▶ The bank has no innovative or complex investments.

Comments

BIB has made four investments during the review period totaling \$155,000 these are:

- ▶ A \$50,000 capital investment in the Arizona Multi-bank CDC which provides funds to small businesses and housing products in low- and moderate-income level areas throughout the Phoenix area.
- ▶ A \$100,000 certificate of deposit with Chicanos Por La Causa Federal Credit Union located in Phoenix. This credit union was developed to meet the financial needs of low-income consumers. Its mission is (1) to provide and expand quality financial services and opportunities at favorable rates to meet the needs of the community; (2) to develop a lending relationship in South Phoenix and other economically disadvantaged areas; (3) to educate community residents of traditional lending practices and neighborhood economics; and (4) to provide consumer education on the need to establish and maintain a good credit history.

- ▶ A \$2,500 donation to the Christmas in April Adopt a House project. This program collects funds to rehabilitate homes located in low- and moderate-income areas.
- ▶ The bank contributed \$250 to Consumer Credit Counseling Services (CCCS). These funds are used for credit counseling, credit education, and debt management programs within the states of Arizona and New Mexico. Demographics provided by CCCS support that these contributions are used to provide counseling and debt management programs to low- and moderate-income individuals.
- ▶ A \$2,000 donation to Neighborhood Housing Services of Phoenix. This organization targets its programs towards meeting the mortgage needs of low- and moderate-income families and increasing home ownership rates in central city neighborhoods. The programs includes home buyer education and counseling, the development of affordable homes through both new construction and acquisition, and rehabilitation and development of creative, flexible mortgage products.

Service test

In assessing the bank's performance under the Service test, we focused on the accessibility of its delivery systems, changes in branch locations, and reasonableness of its business hours and services in meeting needs of its assessment area.

Conclusions

- ▶ BIB's delivery systems are reasonably accessible to essentially all portions of the institution's assessment area. The Camelback and Pinnacle Peak offices are located in the northeastern portion of the assessment area in upper income geographies.
- ▶ The bank's alternative delivery system includes bank-by-mail and bank-by-phone, as well as a mobile branch. BIB provides their customers access to their accounts through Automatic Teller Machines (ATMs), both proprietary and non-proprietary via national network services, Cirrus, Plus, Visa, and Mastercard.
- ▶ The bank has not opened or closed any offices during the review period.
- ▶ The bank's hours of operation are consistent with other institutions within the assessment area.
- ▶ The institution provides a limited level of community development services. Currently, two officers of the bank sit on the loan committee of Chicanos Por La Causa. As mentioned in the investment section, this is a Credit Union that provides banking services to the Hispanic community. The committee meets weekly and is responsible for the development of loan policies and credit risk analysis.
- ▶ President Ronald Estervig is a Trustee of the Neighborhood Housing Services of Phoenix. In this position Mr. Estervig plans and solicits funds for the various programs offered by Neighborhood Housing Services.

Record of compliance with antidiscrimination Laws including the Equal

Credit Opportunity Act, the Fair Housing Act, and the Home Mortgage Disclosure Act

The results of our Fair Lending examination did not reveal any violations of antidiscrimination laws and regulations as they apply to race and ethnicity. As determined from our loan file sample, we found that bank personnel are consistent in applying the bank's underwriting guidelines to all applicants, regardless of race or ethnicity. We also found that the bank has adequate policies, procedures, training programs, and internal assessment efforts to help ensure fair treatment to all loan applicants.