



**Comptroller of the Currency
Administrator of National Banks**

Small Bank

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PUBLIC DISCLOSURE

November 30, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Home National Bank
Charter Number 23108**

**15030 North Hayden Road, Suite 100
Scottsdale, AZ 85260**

**Office of the Comptroller of the Currency
3450 North Rock Road, Suite 505
Wichita, KS 67226**

<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 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 **Home National Bank** prepared by **The Office of the Office of the Comptroller of the Currency**, the institution's supervisory agency, as of November 30, 1998. 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.**”

Home National Bank (HNB) has an adequate record of meeting the credit needs of its community. The loan-to-deposit ratio is satisfactory. The bank extends a majority of loans within its assessment area. The distribution of loans reflects a reasonable penetration among borrowers of different income levels and to businesses of different sizes. The bank has also reasonably penetrated the geographies within its assessment area.

DESCRIPTION OF INSTITUTION

Home National Bank (HNB) was chartered in May 1997, and is a wholly-owned subsidiary of HNB Corporation. The Brown family primarily holds the stock of HNB Corporation. The holding company owns two other banks, Home National Bank, Blackwell, Oklahoma, and Home National Bank, Arkansas City, Kansas. Total asset size for the holding company is approximately \$450 million as of October 31, 1998.

The bank is in the northern portion of Scottsdale, Arizona, in a predominantly commercial and industrial corridor. Management located its single-office operation in this fast-growing area to maximize opportunities for commercial growth. The bank has eight employees, including President/CEO Judith Chandler, who assumed her role as president of the bank in June 1998.

HNB's primary strategy is business lending, specifically, the commercial real estate and retail service sectors of the local market. Consumer loan products are mainly instalment loans with a few second mortgage residential real estate loans. The bank provides its consumer loans primarily as a service to existing business customers. The following table shows the number and dollar amount of commercial and consumer loans in the bank's loan portfolio.

Loan Portfolio Composition

Loan Type	# Loans	% # Loans	Volume (000)	% Volume
Consumer Loans	39	30%	\$1,021	6%
Commercial Loans	90	70%	\$15,773	94%
Total	129	100%	\$16,794	100%

The bank's financial condition is acceptable and does not hinder its ability to service customer needs. However, HNB'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. HNB reported average assets of \$27 million and \$14 million, as of September 30, 1998 and December 31, 1997, respectively. Year-to-date net income was \$61 thousand, with a net loss of \$366 thousand reported for year-end 1997. HNB'S returns on average assets for September 30, 1998 and year-end 1997 were 0.30% and -2.57%, respectively.

DESCRIPTION OF ASSESSMENT AREA

HNB's assessment area includes 70 of Maricopa County's 490 census tracts. The bank's assessment area is predominantly the city of Scottsdale, including the Salt River Indian community. Scottsdale is eight miles northeast of the center of Phoenix, and is an integral part of Metropolitan Phoenix. Scottsdale's expansion is forced to the north, due to the physical

restrictions imposed on the west, south, and east by the city limits of Phoenix, Tempe, and the Salt River Indian Reservation.

The updated weighted average median family income for the Metropolitan Statistical Area (MSA) is \$48,300. The following table shows both the number of census tracts and number of families by income characteristics.

Home National Bank's Assessment Area Characteristics

Income Characteristics	# of Census Tracts	% of Total Census Tracts	Number of Families	% of Families
Low-Income	1	1%	10,286	13%
Moderate-Income	4	6%	10,568	13%
Middle-Income	21	30%	15,964	20%
Upper-Income	43	61%	44,591	54%
Data Not Available	1	1%	0	0%
Total	70	100%	81,409	100%

Local economic conditions are good. Unemployment remains low and Arizona led the nation in job growth during 1998. The service industry and retail trade businesses are the main providers of employment in the assessment area.

Competition in the financial industry is strong within the bank's assessment area. Four, large multi-state banking companies dominate the market. Several community banks also serve Scottsdale.

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.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

HNB's net loan-to-deposit ratio is satisfactory given the bank's de novo status, its single office with limited staff, and the market's competitive environment. The average ratio for the four quarters ending June 30, 1998 is 76%, compared with the peer four-quarter average ratio of 72%.

Lending Within the Assessment Area

The bank extends a majority of loans within its assessment area.

Commercial Lending

HNB's percentage of commercial loans originated within its assessment area is satisfactory. The table below details the bank's commercial loan originations within and outside its assessment area. Specifically, 56%, or 38 of the commercial loans originated by the bank, are within its assessment area. However, if purchased, out-of-state participations (22 loans) are included, the number of loans within the bank's assessment area decreases to 43%. The bank's purchase of these participations is reasonable, given the bank's de novo status and management's strategy to enhance the bank's operating performance through loan growth.

Commercial Loan Originations

In/Out Assessment Area	# Loans	% # Loans	Volume (000)	% Volume
In Assessment Area	38	56%	\$9,959	56%
Out of Assessment Area	30	44%	\$7,733	44%
Total	68	100%	* \$17,692	100%

*Includes total outstandings of approximately \$9 million in loans made to local business that were *sold*, in part, to out-of-state affiliates. These sales were largely due to loan originations in excess of the bank's legal lending limit. As of October 31, 1998, the bank was in a net sold position, with approximately \$9 million in participations sold versus a total of approximately \$7.2 million participations purchased out of the assessment area. Participations purchased are not included in this table.

Consumer Lending

HNB's percentage of consumer loans originated within its assessment area is satisfactory. Approximately 67% of the consumer loans originated by the bank are within its assessment area. The following table illustrates these findings based on census tract information provided by the bank.

Consumer Loan Originations

In/Out Assessment Area	# of Loans	% # Loans	Volume (000)	% Volume
In Assessment Area	26	67%	\$715	70%
Out of Assessment Area	13	33%	\$306	30%
Total	39	100%	\$1,021	100%

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

The distribution of loans to individuals of various income levels and businesses of different sizes is reasonable given the bank's competitive environment and management's business strategy.

Consumer Lending

The distribution of consumer loans by borrower income level is satisfactory. The following table illustrates the distribution of consumer loans by borrower income levels as a percentage of the updated weighted average MSA median family income of \$48,300. Approximately 42% of the number of loans and 20% of the loan dollars were extended to low- to moderate-income borrowers. This compares favorably to area demographics which designate 26% of families as low- to moderate-income. Our analysis was based on a review of 17 of the bank's consumer loan files, which is approximately 44% of the consumer loan portfolio.

Consumer Loan Distribution By Borrower Income Levels

Borrower Income	HNB's Actual Lending				HNB's Assessment Area	
	# of Loans	% of # Loans	Volume (000)	% Volume	Number Families	% of Families
Low-Income	4	24%	\$18	10%	10,286	13%
Moderate-Income	3	18%	\$18	10%	10,568	13%
Middle-Income	0	0%	0	0%	15,964	20%
Upper-Income	10	58%	\$137	80%	44,591	54%
Total	17	100%	\$173	100%	81,409	100%

Commercial Lending

The distribution of commercial loans by borrower's gross revenue is reasonable. The following table illustrates the bank's commercial loan distribution by the borrower's gross revenue size. Approximately 53% of the number of loans and 59% of the loan dollars extended were to businesses with gross revenues less than \$1 million. Demographics for the assessment area reflect that 73% of the commercial entities in the bank's assessment area have gross revenues less than \$1 million. HNB originates fewer loans to businesses with gross revenues less than \$500,000 because management targets larger borrowers to meet growth strategies.

Commercial Loan Distribution By Borrower's Gross Revenue Size (Within Assessment Area)

Gross Revenue Distribution	HNB's Actual Lending				HNB's Assessment Area	
	# of Loans	% of # Loans	Volume (000)	% Volume	# of Businesses	% of Businesses
< \$500,000	9	24%	\$2,095	21%	11,879	65%
\$501,000 to \$999,000	11	29%	\$3,747	38%	1,417	8%
> \$1,000,000	18	47%	\$4,117	41%	1,899	10%
Not Available	-	-	-	-	3,013	17%
Total	38	100%	\$9,959	100%	70	100%

Geographic Distribution of Loans

The geographic distribution of loans by HNB reflects reasonable penetration throughout the assessment area.

Commercial Loans

The geographic distribution of commercial loans by census tract is satisfactory. The following table illustrates the bank's distribution of commercial loans by census tract. Of the 38 loans within the bank's assessment area, 24%, or a total of 9 loans were made in low- or moderate-income census tracts. These findings compare favorably to the demographics of the bank's assessment area.

Commercial Loan Distribution by Census Tract (Within Assessment Area)

Census Tract Designation	HNB's Actual Lending				HNB's Assessment Area	
	# of Loans	% of # Loans	Volume (000)	% Volume	# of Census Tracts	% of Census Tracts
Low-Income	5	13%	\$451	3%	1	1%
Moderate-Income	4	11%	\$466	3%	4	6%
Middle-Income	1	2%	\$48	1%	21	30%
Upper-Income	28	74%	\$14,808	93%	43	61%
Not Available	0	0%	0	0%	1	1%
Total	38	100%	\$15,773	100%	70	100%

Consumer Loans

The geographic distribution of consumer loans by census tracts is satisfactory. The following table illustrates the bank's distribution of consumer loans by census tract. Although the bank's lending patterns do not fully correspond to the demographics, the bank's assessment area only includes five low- or moderate-income census tracts. Additionally, the bank's business strategy focuses on commercial lending.

Consumer Loan Distribution by Census Tract (Within Assessment Area)

Census Tract Designation	HNB's Actual Lending				HNB's Assessment Area	
	# of Loans	% of # Loans	Volume (000)	% Volume	# of Census Tracts	% of Census Tracts
Low-Income	0	0%	0	0%	1	1%
Moderate-Income	0	0%	0	0%	4	6%
Middle-Income	5	19%	\$61	9%	21	30%
Upper-Income	21	81%	\$654	91%	43	61%
Not Available	0	0%	0	0%	1	1%
Total	26	100%	\$715	100%	70	100%

RESPONSE TO COMPLAINTS

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

RECORD OF COMPLIANCE WITH ANTIDISCRIMINATION LAW

The results of the fair lending examination did not reveal any violations of antidiscrimination laws and regulations as they apply to race and ethnicity. As determined from the nineteen loan file sample, the bank's personnel are consistent in applying the bank's underwriting guidelines to all applicants, regardless of race or ethnicity. The bank has adequate policies, procedures, and training to help ensure fair treatment to all loan applicants.