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Comptroller of the Currency  
Administrator of National Banks

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**PUBLIC DISCLOSURE**

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

June 12, 1997

**National Bank of Arizona**  
3101 North Central Avenue  
Phoenix, Arizona 85060-0440

Charter Number 21383

**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.

## **TABLE OF ABBREVIATIONS**

ATM	=	Automated Teller Machine
CDC	=	Community Development Corporation
CRA	=	Community Reinvestment Act
CT	=	Census Tract
DC	=	Delineated Community
HMDA	=	Home Mortgage Disclosure Act
LAR	=	Loan Application Register
LMI	=	Low- and Moderate-Income Area
MUI	=	Medium- and Upper-Income Area
MSA	=	Metropolitan Statistical Area
NBA	=	National Bank of Arizona
OCC	=	Office of the Comptroller of the Currency
SBA	=	Small Business Administration

## GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **National Bank of Arizona**, prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of June 12, 1997. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessment of financial institutions.

### **Basis for the Rating**

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

## ASSIGNMENT OF RATING

### **Identification of Ratings**

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

## DISCUSSION OF INSTITUTION'S PERFORMANCE

### **Institution's Rating**

Based on the findings presented below, this institution is rated:

### **"Satisfactory Record of Meeting Community Credit Needs."**

Evaluation Period: The date of the institution's previous Public Disclosure is May 31, 1995. This disclosure evaluates the bank's performance from May 31, 1995, through June 12, 1997.

### **Bank Profile**

National Bank of Arizona (NBA) is a wholly-owned subsidiary of Zions Bancorporation (Zions), headquartered in Salt Lake City, Utah. That corporation reported consolidated total assets of \$6.5 billion as of December 31, 1996. Zions currently has banking subsidiaries in Arizona, Nevada, and Utah, but has entered into agreements to expand its operations into California, Colorado and Idaho through acquisitions of additional banks and branches.

During the assessment period, one other subsidiary of Zions operated offices in Arizona. That subsidiary is Zions Mortgage Company. To the extent that the activities of that subsidiary helped meet the credit needs of NBA's community, they are part of NBA's CRA performance. These activities are not part of any other financial institution's CRA performance.

NBA is the fifth largest bank in Arizona with reported total assets of \$1.03 billion as of December 31, 1996. Historically, small to medium size businesses, professionals, and real estate construction customers have been the focus of NBA's services. The bank also offers commercial banking services, consumer loans, checking deposits, savings deposits, and certificates of deposit products and services. The recent acquisition of Southern Arizona Bank, which had a retail focus, helped cause NBA to expand its menu of products. But the following table demonstrates that commercial loans remain the core lending activity. The table reflects the composition of the bank's loan portfolio by type of lending product. It shows that 80% of the bank's loan portfolio is commercial related.

<b>Loan Portfolio Composition March 31, 1997</b>		
<b>Loan Type</b>	<b>\$ Amount (000's)</b>	<b>Percentage of Total Loans</b>
Commercial Real Estate	288,115	41%
Commercial	168,722	24%
Commercial Construction	107,859	15%
Consumer	76,959	10%
Consumer Construction	42,370	6%
1-to-4 Family Residential Mortgages	13,984	2%
Other	14,308	2%
<b>Total Loans</b>	<b>\$712,317</b>	<b>100%</b>

A review of NBA's recent earnings record discloses one good measure of the bank's ability to meet its responsibilities under the CRA.

<b>NBA Earnings Performance (\$ in millions)</b>		
	<b>12/31/95</b>	<b>12/31/96</b>
Net Income	\$12.0	\$14.2
Return on Average Assets	1.63%	1.55%
Peer Banks' Average	1.27%	1.24%

NBA's main office is in Phoenix, Arizona, and the bank has 16 branch banking offices throughout its delineated community. In addition to the branches, NBA provides services through 10 ATM locations, two loan production offices, three mortgage loan offices operated by Zions Mortgage Company, toll-free telephone, and courier. For detailed information concerning the distribution of branches and ATM's refer to **Assessment Factor G**.

## Community Profile

National Bank of Arizona defines its community as the bank's principal market areas in the state of Arizona. For analysis purposes, the bank divides the state into five communities. These communities encompass all or part of Arizona's three primary population centers and two moderately populated areas. Competition within the bank's marketplace is from community, regional, and multinational financial institutions.

The Arizona economy remains strong through its sixth year of expansion. The state continues to rank near the top nationally for employment, personal income, and population growth. Some of the largest industries in Arizona include tourism, mining, retail trade, services, electronic manufacturing, military defense, aerospace, agriculture/ranching, and education.

The chart below provides basic demographic information for each of the bank's delineated communities. Following the chart is a more detailed description of each community.

<b>Community Demographics</b>						
<b>Delineated Community</b>	<b>Population (000's) (1)</b>	<b>Median Family Income (000's) (2)</b>	<b>Number of CTs</b>	<b>Percentage of LMI CTs</b>	<b>Number of Owner Occupied Housing Units (000's)</b>	<b>Percentage of Owner Occupied Units in LMI CTs</b>
Phoenix	1,169	\$35	258	32%	267	22%
Tucson	656	\$31	112	37%	157	22%
Yuma	107	\$26	23	34%	24	28%
Flagstaff	47	\$30	12	25%	7	15%
Prescott	37	\$24	8	0%	11	0%
<b>Totals</b>	2,016	NA	413	32%	466	22%

(1) 1990 U. S. Census.

(2) 1990 U. S. Census Median Family Income.

## **Description of Delineated Community:**

### **Phoenix**

This delineated community is part of the largest population center of Arizona and the state's largest MSA. Estimated 1996 population of Arizona is 4.4 million, with 2.6 million in the Phoenix area. The community delineation encompasses 258 of the Phoenix -Mesa MSA's 490 CTs. On the outer fringe of this community is an expansive rural area shared by six Indian reservations, military installations, Tonto National Forest, and Estrella Mountain Regional Park. Growth rates in this area are among the fastest in the nation. The economy is diversified with services, retail trade, government, and manufacturing accounting for the majority of jobs.

### **Tucson**

Tucson, located in southern Arizona, is the second largest city in the state. The community delineation encompasses 112 of the Tucson MSA's 114 CTs. The Tucson MSA consists of all of Pima County. Over half of Pima County consists of Indian reservations, national monuments, parks, and forests. Tucson is among the top ten cities for growth in the Western Region of the United States. Principal employers include the mining, defense, education, farming, and ranching sectors.

### **Yuma**

The Yuma community, located at the southwest corner of the state, has been delineated to include the city of Yuma and Yuma County. The community delineation encompasses 23 of the 24 CTs in the Yuma MSA. It is bordered by California on the West and Mexico on the South. The vast majority of the area is public land consisting of national wildlife refuges and restricted military installations. The major contributors to the economy of the area are agriculture, tourism, and government. Yuma is experiencing rapid growth, with the metropolitan area being the fourth fastest growing metropolitan area in the country. The seasonal nature of the economy from both agriculture and tourism, and stubborn double-digit unemployment, remain issues in providing affordable housing.

### **Flagstaff**

This delineated community consists of 12 of the 25 CTs in the Flagstaff MSA. The community delineation is more generally defined by the bank as the Flagstaff city limits. Flagstaff is the largest city in northern Arizona. Tourism is a principal source of employment, in addition to lumber, railroad, and ranching.

### **Prescott**

The bank identifies the Prescott community as including the cities of Prescott and Prescott Valley. Tourism and services catering to retirees are the main sources of economic activity. This community is the least populated of the bank's five identified communities.

## **Community Credit Needs**

Our review included the identification of community credit needs throughout the bank's delineated communities. This included four contacts with community group representatives. These contacts provided information about community credit and service needs, and feedback on NBA's CRA performance. In addition to these personal contacts, we reviewed information obtained through three contacts made by other financial institution regulators within the bank's market during the past year. We analyzed this information in conjunction with demographic and economic data to identify the following community credit and service needs.

- Loans for small businesses and entrepreneurs.
  - Start up loans through micro loan programs,
  - Business and banking outreach education, and
  - Technical assistance and financial counseling.
  
- Affordable housing and financing for low income and first time home buyers.
  - Flexible underwriting standards,
  - Creative credit initiatives, and
  - Down payment assistance.
  
- Consumer education on banking products and services, especially for minorities.

### **I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS**

**Assessment Factor A: Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.**

**Conclusion:** NBA has effectively identified the credit needs of its communities. And management sufficiently communicated to the communities the credit services being provided.

**Supporting Detail** - Credit ascertainment efforts employ broad-based collaboration on the part of the NBA lending staff, the CRA Committee, and the CRA Officer. Management has identified community credit and service needs through the use of marketing calls and regular contact with community leaders and business groups.

NBA uses an active officer call program to obtain information about community credit needs. The program is used to inform lending officers about commercial and small business lending opportunities, affordable housing demand, and growth and development patterns in the delineated communities. The program's mission is to create banking relationships with emerging businesses

and new business owners, with emphasis on SBA prospects. However, these calls would include non-profits, community, and civic groups and associations throughout the community.

Officers of NBA maintain ongoing affiliations in their geographic areas with a wide range of organizations. The officers use these affiliations to help determine credit needs in the communities and what types of business opportunities might exist.

NBA's officer affiliations include but are not limited to:

- Professional organizations; includes law, banking, human resources, insurance, estate planning, medical management, financial analysts, and investment management.
- Real estate development associations; includes residential home builders, shopping centers, and housing networks.
- Mortgage lending associations.
- Small business organizations; includes women business owners and technology incubators.
- Housing agencies.
- Neighborhood and school associations.
- Government relations committees.
- Economic development agencies.
- Special needs agencies.
- United Way and other charities.

As a result of the ascertainment efforts described above, the board and management have committed to meet the financial needs of Arizona's small- and mid-sized businesses, professional practices, and real estate construction groups. The following is the bank's record of responding to the identified credit and service needs.

***Commercial and Small Business Loans - Loans, technical assistance and education.***

NBA responded by offering loan products:

- Revolving lines of credit,
- Start-up and franchise loans,
- Loans with nonconventional repayment sources,
- Term loans,
- Letters of credit,
- Various Small Business Administration (SBA) loans, and
- Business credit card services.

NBA's business bankers serve on boards and committees of small business support and development organizations that promote technical assistance and outreach.

NBA partnered with SBA and Service Core of Retired Executives (SCORE) in presenting seminars to new businesses. Further, bank officers make presentations at forums for small business ventures and home based businesses.

***Affordable Housing - Multi-Family - Increased affordable multi-family housing stock and technical assistance to developers.***

NBA responded by:

- Providing financial and technical support to organizations for renovation of housing for the homeless, low- and moderate income individuals and families, infill redevelopment, and health care housing projects.

***Affordable Housing - Single-Family - Affordable mortgage loans with down payment and closing assistance; special needs mortgage loan products.***

NBA responded by:

- Offering at the Yuma branches, affordable mortgage products including FHA, VA, and conventional loans. In 1995, the Yuma branches ranked highest amongst the 114 reporting lenders active in the Yuma market in the number and dollar volume of HMDA reportable loans produced.

***Banking Services - Convenience; broader branch distribution including LMI.***

NBA responded by:

- Expanding the number of branch offices and including low- and moderate-income areas.
- Opening a Loan Production Office.
- Establishing a limited service branch.
- Providing courier service in Phoenix and Tucson.
- Through acquisition, adding ATMs including locations in LMI areas.

See **Assessment Factor G** for more detail on **Alternative Delivery Systems** and **Opening and Closing Offices**.

**Assessment Factor C: The extent of participation by the institution's Board of Directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.**

**Conclusion:** The bank's board, through its CRA Committee, is generally involved in formulating CRA policies, and in reviewing the banks performance with CRA.

**Supporting Detail** - The board has established a CRA Committee. The CRA/Compliance Officer chairs the seven member committee, which includes two members of the board. Further, the committee meets semi-annually and members receive quarterly statistical reports on lending, investment, and service performance. Annually the CRA Officer meets with the Board of Directors to discuss the results of CRA activities and to inform the board of actions taken in the CRA Committee meetings.

The CRA Program is managed from the Tucson branch for the bankwide system. The Compliance/CRA Officer is the person responsible for coordinating CRA objectives and reporting and monitoring performance for the organization. And this person maintains oversight of the daily compliance operations. CRA objectives are achieved through a broad-based and collaborative effort on the part of the bank's lending staffs, branch managers, and the Compliance/CRA Officer.

Technical compliance with the CRA regulation is good. NBA had no violations of the CRA regulation at the last review in 1995. Further, we found no violations during the current review. The bank has posted the required CRA notices and maintains a Public File for review in each main office within its delineated communities.

All affected bank officers, directors who are members of the CRA Committee, and employees receive annual CRA training. Newly hired officers and employees receive CRA information as part of their orientation. The training covers the purpose of CRA and compliance requirements. Further, the staff is informed as to how their activities contribute to building and sustaining CRA performance.

## **II.       MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED**

**Assessment Factor B: The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.**

**Conclusion:** The bank effectively reaches all segments of its delineated communities through a variety of marketing media and community contacts.

**Supporting Detail** - The bank uses a variety of marketing methods designed to reach all segments of its delineated community, including low- and moderate-income neighborhoods. Some of these methods include:

- Newspapers with wide community circulation (Phoenix Business Journal, Arizona Business Gazette, Tucson Star/Citizen, Yuma Daily Sun, Sun Visitor, Arizona Daily Sun, Prescott Courier);
- Magazines targeted to professionals, small business enterprise, and senior citizens (Tucson Lifestyle, Inside Tucson Business, Book of Lists, Sombrero, Homeshow, Super Shopper);
- Officer calls;
- Information booths at business seminars and trade association meetings;
- Breakfasts with professional groups;
- Marketing brochures;
- Board and staff involvement in the community, and
- Sponsorships of community and charity events.

Marketing is generally not directed to retail consumers since the bank specializes in small to medium size business, professional, and construction lending. The bank advertises only in English.

The bank regularly sponsors community events and activities in which senior staff and board members often participate. These activities increase the bank's visibility within the community and provide a forum for communicating the bank's services and product availability. The officer call program targets prospective customers, including those in low- and moderate-income areas, to whom the officers should introduce the bank and its products.

NBA helps individuals and groups understand the credit application process. The bank developed a Business Credit Information Package that assists small and medium size businesses. The package provides materials to facilitate quicker response to a credit request. Additionally, loan officers attend forums and community group meetings that focus on assisting individuals with an interest in a start-up or business expansion plans. Further, bank officers often assist non-profit organizations such as churches, foundations, and inter-tribal Indian councils in applying for loans based on nonconventional sources of repayment.

Bank personnel assist customers in the application process on a one-on-one basis. Spanish speaking loan officers are available to assist Spanish speaking customers as needed.

**Assessment Factor I: The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.**

**Conclusion:** NBA's extensions of credit have addressed a significant portion of the credit needs of its community.

**Supporting Detail -** The bank has extended a significant volume of credit within its community. NBA's level of small business lending is particularly good. Overall lending trends are positive. The bank's loan-to-deposit ratio increased from 63% to 78% since year-end 1994. A majority of the bank's lending takes place within its DCs. Internal reports reflect that 87% of the dollar volume of small business loans were originated within NBA's DC's in 1996. HMDA data for 1996 shows 62% of the dollar volume of mortgage-related loans were originated within NBA's DCs. Loans originated in Arizona through NBA and Zion's Mortgage Corporation were included in this analysis.

The types of loans offered and extended are generally responsive to identified needs within the communities served by the bank. NBA provides an array of credit products, but primarily focuses on commercial lending. Major credit products include:

- Commercial loans, including commercial construction and small business loans;
- Residential real estate loans, including home purchase, refinance, home improvement, and multifamily loans;
- Various government guaranteed or enhanced programs; and
- Loans to individuals for household, family, and other personal expenditures.

<b>Lending Activity within Delineated Communities</b>		
<b>Loan Type</b>	<b>1996</b>	
	<b>Number of Loans made in DCs</b>	<b>\$ Amount (000s)</b>
Small Business Loans	902	125,026
Small Farm Loans	48	5,964
Home Purchase Loans	345	29,705
Mortgage Refinance Loans	118	10,322
Home Improvement Loans	21	949
<b>Totals</b>	<b>1,434</b>	<b>171,966</b>

NBA's effort to originate small business loans is noteworthy. The bank's small business portfolio serves a variety of community needs and best reflects NBA's commitment to the CRA. The portfolio includes loans for such needs as LMI multi-family housing renovation and construction, elderly care facilities, financing to nonprofit organizations that provide micro-loans and community services, small business financing, developer financing including first time home buyer projects, and moderately-priced housing developments. NBA is also a leading participant in SBA loan programs in the state of Arizona, as more fully explained below.

**Assessment Factor J: The institution's participation in government insured, guaranteed, or subsidized loan programs.**

**Conclusion:** The bank has taken a leadership role in helping to meet the credit needs of businesses by affirmatively participating in government loan programs. NBA also helps meet the housing needs of consumers by participating in government mortgage loan programs.

**Supporting Detail** - NBA is strongly aware of government sponsored loan programs which fall within its primary business focus and makes use of these programs to extend credit to businesses. The bank also offers government insured or guaranteed mortgage loan products to consumers. The table below highlights the bank's participation in government sponsored loan programs for businesses and consumers.

<b>Government Sponsored Loan Programs</b>				
<b>Loan Type</b>	<b>1995</b>		<b>1996</b>	
	<b>Number of Loans</b>	<b>\$ Amount (000's)</b>	<b>Number of Loans</b>	<b>\$ Amount (000's)</b>
SBA LowDoc, 504, Capline, and 7(a) Loans (1)	95	\$16,325	83	\$17,115
FHA/VA Mortgage Loans (2)	76	\$ 6,816	119	\$ 9,947
<b>Totals</b>	171	\$23,141	202	\$27,062

(1) The SBA loan information is for fiscal years ending September 30.

(2) The HMDA mortgage loan information is for reporting years ending December 31.

Data supplied by the SBA portrays the bank as a leading participant in their loan programs in the State of Arizona. Combining the SBA loan production of NBA, Southern Arizona Bank, and Zions Bancorporation entities in 1995, the bank was the leading SBA lender in Arizona for LowDoc loans in number of loans originated. The bank was also the second highest producer

of SBA loans in the number of loans originated, and the third ranking SBA loan producer in dollar volume. In 1996 the bank achieved similar results, ranking first in the state in number and dollar amount of LowDoc loans, third in number of SBA loans approved, and sixth in dollar volume.

NBA and Zions have originated government guaranteed or insured consumer real estate loans. In view of the bank's size, the number and dollar amount of these products originated are not considered voluminous. But, as stated in the **Bank Profile**, consumer lending is not a major focus of NBA's business. In that context, the bank's participation in government mortgage loan programs is reasonable.

Analysis of SBA loans provided by the bank and of mortgage loans performed by OCC demonstrates that a majority of the bank's government sponsored loans are made to borrowers within its DCs. Of the approximate \$16 million of SBA loans on the bank's books as of April 11, 1997, at least 57% of the dollar volume and 66% of the number of those loans are to borrowers located in its DCs.<sup>1</sup> And, the 1996 HMDA LAR data shows that 67% of the number and 69% of the dollar amount of government mortgage loans are made within the bank's DCs.

The overall trend for participation in government sponsored loan programs is positive.

### **III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES**

#### **Reasonableness of Delineated Community**

**Conclusion:** The bank's delineated communities are reasonable.

**Supporting Detail** - The board and management have delineated five communities across the state of Arizona. The five communities correspond with the location of the offices of NBA and the markets served by those offices. The DCs include all or major portions of four of the five MSAs located in the state.

The DCs contain 55% of the state's population according to 1990 U.S. Census information. The communities also encompass 51% of the CTs in Arizona, and 51% of the LMI CTs. No LMI geographies are arbitrarily excluded. The delineations meet the legal requirements of the Community Reinvestment Act. The size of the bank, its product focus, the competitive environment, and the support of the parent corporation indicate that reasonable community delineations have been achieved which the bank can realistically service.

#### **Assessment Factor E: The geographic distribution of the institution's credit extensions,**

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<sup>1</sup>The census tracts were not yet identified for some of the loans. For those loans, the bank has not yet made a determination of whether they are to borrowers within or outside the delineated communities.

**credit applications, and credit denials.**

**Conclusion:** The geographic distribution of NBA's primary loan products, credit applications, and credit denials is reasonable.

**Supporting Detail** - Since business purpose loans are the largest part of the bank's loan portfolio, it is most useful to perform geographic distribution analysis of them. The analysis demonstrates that NBA has done a satisfactory job of making business loans primarily to borrowers located in its DCs. And the bank has achieved a good balance between its LMI CT penetration and overall CT penetration. The table below shows the effectiveness of the bank's business loan program in serving the credit needs of all segments of the DCs.

<b>Distribution of Outstanding Balances for Business Purpose Loans By Delineated Communities (1)</b>			
<b>Delineated Community</b>	<b>Loans Made in the MSA or Area (000's)</b>	<b>Percentage of CTs Penetrated in DC</b>	<b>Percentage of LMI CTs Penetrated in DC</b>
Phoenix	\$ 130,963	75%	79%
Tucson	\$ 138,582	85%	92%
Yuma	\$ 39,975	83%	75%
Flagstaff	\$ 17,035	100%	67%
Prescott	\$ 12,222	Not available	No LMI CTs
<b>Total (2)</b>	<b>\$ 338,777</b>	<b>NA</b>	<b>NA</b>

(1) These do not include business-purpose real estate loans.

(2) Reported loan balances as of April 8, 1997.

The above table does not include residential construction loans made to real estate developers, another large part of the loan portfolio. The bank is not required to, and did not track those loans. While a distribution analysis cannot be done on the loans, it should be noted that the bank had about \$171 million of those loans on the books as of December 31, 1996.

Included in the above loan types are small business loans. Last year (1996) was the first year the bank was required to track and report such loans for CRA purposes. Overall, the distribution of small business loans to LMI geographies is satisfactory and generally corresponds to the percentage of LMI geographies in each DC. Further, a majority of LMI tracts in each DC have been penetrated. The following table documents the distribution of the bank's small business loans.

Geographic Distribution of Small Business Loans By Delineated Communities				
Delineated Community	Number of Loans Originated in DC	Percentage of Loans Originated in LMI Geographies	Percentage of LMI Geographies in DC	Percentage of LMI CTs Penetrated in DC
Phoenix	363	30%	32%	52%
Tucson	346	25%	37%	68%
Yuma	113	13%	34%	75%
Flagstaff	55	16%	25%	67%
Prescott	25	0%	No LMI CTs	0%

NBA's efforts to address the needs of small businesses is also demonstrated by the relative size of its small business loans and the size of businesses served. Sixty-five percent of the small business loans reported by the bank in 1996 were under \$100 thousand in size. Further, 435 business loans originated by the bank in 1996 were to businesses with gross annual revenues under \$1 million.

The bank is also required to track and report consumer mortgage loans. As noted in the **Bank Profile**, this lending activity includes loans made in Arizona by the affiliated Zions Mortgage Company. The following table shows that a significant amount of permanent consumer mortgage loan product was delivered to borrowers in Arizona in 1996. Overall, about 12% of the dollar volume of these loans was made to borrowers in LMI CTs, when 32% of the CTs in the delineated communities are LMI. The data shows that the LMI CT penetration is somewhat low, mainly due to the low penetration in Phoenix. It should be noted that consumer mortgage lending has not been a primary line of business for the bank. The following table documents the distribution of the bank's consumer mortgage loan products.

<b>Distribution of 1996 Consumer Mortgage Loan Products By Delineated Communities</b>				
<b>Delineated Community</b>	<b>Number of Loans Made in DC</b>	<b>Percentage of Loans Originated in LMI Geographies</b>	<b>Percentage of LMI Geographies in DC</b>	<b>Percentage of LMI CTs Penetrated in DC</b>
Phoenix	84	13%	32%	11%
Tucson	10	10%	37%	3%
Yuma	343	12%	34%	88%
Flagstaff	39	8%	25%	33%
Prescott	8	0%	No LMI CTs	0%

CRA requires large banks to track loans to small farms. But these kinds of loans are such a minor part of the bank's overall lending activity that a distribution analysis is not meaningful. There is insufficient information to analyze the distribution of loan applications and denials for the bank's major product lines.

**Assessment Factor G: The institution's record of opening and closing offices and providing services at offices.**

**Conclusion:** The bank has a reasonable record of opening and closing offices, and provides accessible services to all segments of the community.

**Supporting Detail** - NBA's main office is in Phoenix, Arizona, and the bank has 16 branch banking offices, two Loan Production Offices, and a limited service branch, all reasonably distributed throughout its delineated communities. In addition to these offices, NBA provides services through 10 ATMs located in the Yuma delineated community. Banking hours are Monday through Thursday, 9:00am to 4:00pm; and Friday, 9:00am to 5:00pm. Some branches provide drive-up service from 9:00am to 5:00pm, Monday through Friday.

NBA's main office and branches are staffed facilities engaged in a wide range of banking activities. Each of these 17 offices provides a full range of services, though the emphasis remains business banking for those locations outside of Yuma. Seven are in LMI geographies. Additionally, NBA operates one limited service branch at a retirement complex named Friendship Village in Tempe, Arizona. And the affiliated Zions Mortgage Company operated three small offices, located in Flagstaff, Phoenix, and Sedona. A loan production office operates in Payson.

Automated Teller Machines (ATMs), are automated, unstaffed banking facilities owned and operated by NBA. The machines communicate in both English and Spanish. Nine of the ten ATMs (90%) have 24-hour access. Also, eight of the ten ATMs (80%) are full service machines that accept deposits, dispense cash, and allow account inquiries. No fees are paid by NBA customers for these services. Seven ATMs (70%) are in LMI geographies.

During the assessment period, NBA took actions to expand its mortgage loan services. As already discussed, the acquisition of Southern Arizona Bank added a full service mortgage provider for the Yuma area. Prior to that, the three Zions Mortgage Company offices were the only full service mortgage providers for NBA in its delineated communities, and NBA merely operated as a broker, referring mortgage loan packages to other lenders. But recently NBA established Mortgage Departments in branches in Phoenix and Tucson. To avoid duplication of service, Zions Mortgage Company closed its office in Phoenix.

The following table discloses that the bank's distribution of full service offices and ATMs has achieved reasonable penetration into low- and moderate-income areas. The table compares the percentage of branches and ATMs located in low- and moderate-income areas to the percentage of low- and moderate-income area census tracts for the delineated community.

<b>Branch/ATM Distribution and Comparison to LMI Demographics</b>				
	<b># Branches/ ATMs</b>	<b># LMI Branches/ ATMs</b>	<b>% LMI Branches/ATMs</b>	<b>% LMI Geographies</b>
Total in Delineated Communities	17 / 10	7 / 7	41% / 70%	33%
Phoenix	7 / 0	3 / 0	42% / 0%	32%
Tucson	3 / 0	2 / 0	66% / 0%	37%
Yuma	5 / 10	2 / 7	40% / 70%	34%
Flagstaff	1 / 0	0 / 0	0% / 0%	25%
Prescott	1 / 0	0 / 0	0% / 0%	38%

## Opening and Closing Offices

Through ongoing analysis, management evaluates branches for profitability and duplication of services. Since the last OCC CRA review date in May 1995, NBA has:

- Opened one full service branch in Prescott.
- Closed one limited service branch in Mesa.
- Relocated one Tucson branch within a low- and moderate-income CT.
- Acquired five full service branch offices in Yuma that were operated by Southern Arizona Bank. Two branches are located in low- and moderate-income CTs.
- Acquired ten ATMs in Yuma that were operated by Southern Arizona Bank. Seven of the ATMs are located in low- and moderate-income CTs .
- Opened one loan production office in Payson.

Management made their branch closure and relocation decisions without having discussions with community leaders or customers, an exception to NBA's Branch Closing Policy. Management felt the deviation from policy was acceptable as the branches were closed to eliminate duplication. In addition, management perceived a positive impact on the community resulting from a relocation to a new, nearby and expanded service location.

## Alternate Delivery Systems

In addition to banking offices and ATMs, NBA uses *Alternative Delivery Systems* to enable access to banking services. NBA provides a courier service to regularly pick-up and deliver non-cash deposits for businesses in Phoenix and Tucson. Toll-free telephone service is also offered. Night depository and bank-by-mail provides customers the ability to make deposits and loan payments outside regular banking hours.

Management uses customer feedback to evaluate the effectiveness of their products and services. They gain feedback from interviews conducted during officer calls and normal customer interaction.

## IV. DISCRIMINATION

**Assessment Factor D: Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).**

**Conclusion:** We did not identify any practices intended to discourage applications for the types

of credit offered by the bank.

**Supporting Detail -**

- The bank accepts and solicits applications from all segments of the community including low- and moderate-income areas.
- The bank provides annual employee training to prevent discriminatory practices in lending activities.
- Compliance audits test for adequacy of policies and practices.
- The bank conducts a second review of all denied consumer loan applications to ensure that all denied applicants have received fair and equal treatment.

**Assessment Factor F: Evidence of prohibited discriminatory or other illegal credit practices.**

**Conclusion:** We found no evidence of prohibited discriminatory or other illegal credit practices.

**Supporting Detail -** We did not find any substantive violations of anti-discrimination laws or regulations including the Equal Credit Opportunity Act and the Home Mortgage Disclosure Act. We based our conclusion on a sample of 6 denied black and 29 approved white government guaranteed home purchase loan applications. We compared the qualifications of each of the applicants and found no evidence of disparate treatment.

**V. COMMUNITY DEVELOPMENT**

**Assessment Factor H: The institution's participation, including investments, in local community development and redevelopment projects or programs.**

**Conclusion:** NBA is aware of community development programs and has demonstrated a good level of participation in community development projects and programs.

**Supporting Detail -** NBA's participation in community development projects and programs includes community development loans, investments, and services. These are detailed below:

### **Community Development Lending**

The total dollar volume of community development projects funded, since the previous CRA review in May 1995, is \$7,618,690. The bank also made total commitments of \$4,226,000. The commitments are extended over a period of time, usually two years. Many of the commitments have already been funded. The NBA's most significant community development loans are listed below:

- A 1995 commitment to a limited partnership which was formed for the purpose of constructing a 180-unit apartment complex which is restricted to tenants whose income is at or below 60% of the median family income for the area. The bank committed to lend \$4,136,000 over a period of time.
- A 1995 loan to a limited partnership which was formed to construct a 96-unit apartment complex which is restricted to tenants whose income is at or below 60% of the median family income. The bank loaned \$967,000 for this multi-family project.
- A 1995 loan to a limited partnership to fund construction of an 84-unit apartment complex which is restricted to tenants whose income is at or below 60% of the median family income. The bank loaned \$1,400,000 for this multi-family project.
- A 1995 loan to construct a 76-unit apartment complex which is restricted to tenants whose income levels are at or below 60% of the median family income. The bank loaned \$1,193,000 for this multi-family project.
- A 1996 loan to develop a 287-space mobile home park within an LMI geography. This will provide affordable mobile home spaces for LMI families and alleviate the problem of 250 illegally parked mobile homes. The bank loaned \$1,600,000.
- A 1997 loan to fund a multi-family project of 119 units for moderate-income families. The project is financed by NBA with equity funds derived primarily from the sale of Section 42 federal income tax credits. The bank loaned \$1,364,690 and is the lead lender.

### **Community Development Investments**

NBA made one qualified investment during the assessment period. The bank invested \$50,000 in the Arizona Multi-Bank Community Development Corporation in 1995. The CDC offers financial and technical assistance for small businesses, affordable housing for LMI, and promotes economic development. The CDC benefits the Phoenix MSA.

## **Community Development Services**

- NBA sponsored a Federal Home Loan Bank (FHLB) grant in 1997. The bank manages the disbursement of funds which are being used by the Central Arizona Shelter Services, Inc., a Section 501 charitable nonprofit organization, to provide 60 efficiency apartments for single individuals who were previously homeless.
- NBA sponsored a FHLB grant in 1997 which was used to rehabilitate a vacant church campus. It will be used to provide very low-cost rental units for homeless Native Americans and other individuals with AIDS or HIV related diagnosis.

In addition, the bank also serves its community by helping individuals and groups understand the credit application process. For additional information, please see Assessment Factor B.

**Assessment Factor K: The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions, and other factors.**

**Conclusion:** Commensurate with its size and condition, NBA has demonstrated an ability to meet the credit needs of its community.

**Supporting Detail** - Within the context of the business focus stated in the **Bank Profile**, there are no significant financial or economic factors which inhibit the bank's ability to help meet the community's credit needs. The last safety and soundness examination found NBA in sound financial condition. It is the fifth largest bank in Arizona in total assets, with a network of branches, offices, ATMs, and alternative delivery systems in place to provide credit to the entire delineated community. Further, economic conditions in Arizona are good, creating an environment beneficial to providers of financial services.

As a subsidiary of Zions Bancorporation, the bank has access to additional resources through its corporate affiliates. Those include Zions First National Bank and Zions Mortgage Company. These entities demonstrate a willingness to support the development and implementation of programs and products to meet community credit needs, primarily through mortgage lending.

There are no legal impediments which inhibit the bank's ability to meet the credit needs of its community. NBA is not subject to any special legal constraints which prevent it from offering a full range of credit services.

**Assessment Factor L: Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.**

**Conclusion:** NBA and its affiliates engage in other activities that contribute to meeting the

community's credit needs.

**Supporting Detail** - NBA financed the creation of affordable housing during this assessment period by making construction loans for two housing projects. One development builds homes which average about \$75,000 in price. Another offers homes which range in price from \$45,000 to \$80,000. While these projects are not located in LMI geographies, do not receive government subsidies, and are not specifically targeted to LMI individuals, they do increase the stock of affordable housing in the delineated communities.

The bank also made a loan to finance renovation of a 16-unit apartment complex. The rental rates will be low relative to market conditions. While these units will not be subsidized and are not specifically targeted to LMI individuals, they do increase the stock of affordable rental units in one of the delineated communities.

During the assessment period, NBA made contributions to various groups across the state, some which advocate or facilitate housing, education, or economic needs of the community, including LMI areas. A breakdown of contributions is as follows:

Housing	\$ 1,350
LMI	7,594
Education	5,850
Other	<u>44,084</u>
Total Contributions	\$58,878