



# LARGE BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## Public Disclosure

August 31, 2006

### Community Reinvestment Act Performance Evaluation

National Bank of Arizona  
Charter Number: 21383

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Tucson, Arizona

Office of the Comptroller of the Currency  
Large Bank Supervision  
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*NOTE: This document is an evaluation of this 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. This evaluation is not, and should not 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.*

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## Overall CRA Rating

**Institution’s CRA Rating:** This institution is rated “**Satisfactory.**”

The following table indicates the performance level of **National Bank of Arizona (NBA)** with respect to the Lending, Investment, and Service Tests:

Performance Levels	National Bank of Arizona Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding		X	
High Satisfactory	X		X
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

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

The major factors that support this rating include:

- The volume of NBA’s lending is adequate and a majority of its loans are originated inside its assessment areas (AAs).
- NBA’s geographic distribution of home mortgage loans is adequate and its geographic distribution of small loans to businesses within its AAs is excellent.
- NBA’s distribution of home mortgage loans to borrowers of different income levels is good and its distribution of loans to businesses of all sizes is adequate.
- NBA originated a high level of community development loans that are responsive to identified credit needs in its AAs and occasionally demonstrated complexity.
- NBA funded an excellent level of qualified investments that are responsive to a wide variety of important community development needs in its AAs.
- NBA’s branch delivery system is generally accessible to all portions of its AAs.
- NBA provided a high level of CD services that are responsive to a variety of identified needs in its AAs.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

**Community Reinvestment Act (CRA):** the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn). Beginning in 2004, the reports also include additional data on loan pricing, the lien status of the collateral, any requests for preapproval and loans for manufactured housing.

**Home Mortgage Loans:** Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Metropolitan Area (MA):** Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget and any other area designated as such by the appropriate federal financial supervisory agency.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier One Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries. [*Schedule RC-R - Regulatory Capital, line 3a(1) or UBPR, page 11A, "Net Tier One"*]

**Upper-Income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

## Description of Institution

NBA is a wholly owned subsidiary of Zions Bancorporation (Zions), a multibank holding company headquartered in Salt Lake City, Utah. As of June 30, 2006, NBA reported total assets of \$4.6 billion and a Tier One Capital position of \$268 million. NBA is the fourth largest bank in Arizona with almost 5% of the deposit market, preceded by JP Morgan Chase Bank, N.A., Bank of America, N.A., and Wells Fargo Bank, N.A.

NBA is an intrastate bank with 53 banking offices throughout 12 assessment areas (AA). The AAs encompass five metropolitan statistical areas (MSA) in 13 counties for a total of 35 communities throughout the state of Arizona. NBA was founded in 1984 in Tucson, Arizona. During its first 10 years of operation, the bank experienced significant growth resulting from several mergers and acquisitions. In 1994 the bank was acquired by Zions Bancorporation. Over the next 10 years, NBA merged with Zions First National Bank of Arizona and Rio Salado Bank in Phoenix, and Southern Arizona Bank in Yuma. Additionally, NBA expanded through the purchase of branches from Wells Fargo, Pacific Century Bank, and Frontier State Bank.

NBA is a full-service banking institution that focuses on businesses, professionals, and the real estate industry. It offers a full range of loan and deposit products through its 53 branch locations and 56 automated teller machines (ATMs). The majority of the loan portfolio is comprised of construction and land development loans at 49% of the total loan portfolio, followed by commercial real estate at 28%. Although only 12% of the bank's current portfolio is home mortgage loans, NBA is a relatively active mortgage lender selling the majority of its loans into the secondary market.

Competition for deposits is strong in Arizona and in NBA's major markets where we conducted full-scope reviews. On a statewide basis, NBA ranked fourth in 2005 with a deposit market share of 4.7%. However, JP Morgan Chase Bank, N.A., Bank of America, N.A. and Wells Fargo Bank, N.A. dominated 66% of statewide deposits that year. This was also true in the Phoenix-Mesa-Scottsdale and the Tucson MSAs where these competitors captured 67% and 63% of deposits in 2005, respectively. The exception is in the Yuma MSA where NBA held a 27% deposit market share and ranked first.

There are no legal, financial, or other constraints that impede NBA's ability to help meet the credit needs in its AA. NBA's last CRA examination was as of October 20, 2003. At that time, the bank received an overall rating of "Satisfactory."



## Scope of the Evaluation

### Evaluation Period/Products Evaluated

We evaluated NBA's CRA performance using Large Bank Tests in the CRA regulation. For the Lending Test, we considered NBA's Home Mortgage Disclosure Act (HMDA) loans and CRA data (small loans to businesses) for the period of January 1, 2003 to December 31, 2005. Market comparisons were based on 2004 HMDA peer data and 2005 CRA peer data because these were the most current years available at the time of our evaluation. The evaluation period for community development (CD) loans, CD services and qualified investments is October 21, 2003 to August 31, 2006. The branch and automated teller machine (ATM) information covers the period of January 1, 2004 through August 31, 2006. Table 1 in Appendix D of this evaluation contains HMDA and CRA data for 2003, 2004, and 2005, and all CD lending for the evaluation period. Table 1a and Tables 2 through 12 contain only 2004 and 2005 data because of census tract and MSA changes that occurred during the evaluation period. Nonetheless, our analysis included 2003, 2004 and 2005 reported data and when performance significantly differed from one year to the next, it is discussed in the narrative comments of this evaluation.

### Data Integrity

Prior to this CRA examination, we reviewed the bank's system for testing the accuracy of publicly reported HMDA and CRA loan data. We found the bank's systems to be effective and its data to be accurate. We also reviewed the accuracy of CD loans, investments, and services. During this evaluation we identified a small percentage of CD activities that did not qualify. This evaluation includes only those loans, investments, and services that meet the definition and purpose of CD.

### Selection of Areas for Full-Scope Review

We performed full-scope reviews for three of the bank's AAs. These are the Phoenix-Mesa-Scottsdale (Phoenix), Tucson, and Yuma MSAs, representing 43%, 19% and 10% of total bank deposits, respectively. In total, these AAs account for 72% of total bank deposits as of June 30, 2005 and 66% of NBA's combined reportable loans. Accordingly, they are considered representative of NBA's overall CRA performance. Limited scope reviews were conducted in Flagstaff, Prescott, and seven non-MSA AAs grouped as a whole.

### Ratings

The overall Lending, Investment, and Service Test ratings are based primarily on conclusions drawn on the AAs that received full-scope reviews, but were also influenced by performance in limited-scope areas. When determining the Lending Test conclusions by AA, NBA's HMDA reported lending has been weighted more heavily than small business loans because of volume. Small farm loans are so few in number that no weight is given in this evaluation. Within the bank's HMDA lending, home purchase, home improvement and mortgage refinance lending is also weighed based on volume. Geographic and borrower distribution of HMDA and small business loans are weighed equally and have the most impact on AA Lending Test

conclusions. Qualitative factors such as complexity, innovation, responsiveness, and flexible lending programs are given consideration.

CD lending is considered a neutral or positive impact to overall Lending Test ratings, based on volume, complexity, and community impact of the transactions.

The term “allocated Tier One Capital” is used to describe the portion of capital that is equal to the portion of deposits a specific AA represents in relation to total bank deposits. It is used only as a reference. The term is used in relation to NBA’s CD lending and qualified investments.

The Service Test analysis focuses on NBA’s distribution of branches by income level of the geography. However, there were instances where a branch located in a middle- or upper-income census tract was actually right on or near the border with a low- or moderate-income tract. Accordingly, our analysis considered the benefit these “bordering branches” provided to their respective communities. Changes in branch locations and community development services received a lesser amount of weight to overall conclusions. CD services, if significant, can have a positive impact on overall Service Test ratings.

## **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

## Conclusions with Respect to Performance Tests

### LENDING TEST

#### Conclusions for Areas Receiving Full-Scope Reviews

NBA's Lending Test performance is rated "High Satisfactory." Based on a full-scope review, performance in the Phoenix and Tucson MSAs is good and performance in the Yuma MSA is excellent.

#### Lending Activity

Refer to Table 1 and 1a of Appendix D for the facts and data used to evaluate the bank's lending activity.

Within the context of the significant effect that mortgage companies, business credit card originators, and other specialized lenders have upon the financial services market, NBA's lending activity in its full scope AAs is adequate. In evaluating lending activity, we considered the volume of HMDA loans, small loans to businesses, and CD loans in each of the bank's full-scope AAs.

As of June 30, 2005, NBA held a deposit market share of 2.8% in the Phoenix MSA. In this MSA, where 1,015 institutions originated more than 439 thousand HMDA loans in 2005, competition for residential mortgage loans is high. Many of the top lenders are entities that do not take deposits from this AA to fund their operations, which somewhat distorts the relationship between deposit taking activity and lending activity in this market. In 2005, NBA's HMDA market share was .1% by number and .28% by dollar of HMDA loans. It held a market share of 1.04% by number and 6.58% by dollars of small loans to businesses in 2005. In addition NBA originated more than \$20 million in CD loans in the Phoenix MSA during the evaluation period.

As of June 30, 2005, NBA held a 6.4% deposit market share in the Tucson MSA. In this AA, where nearly 600 institutions originated nearly 72 thousand HMDA loans in 2005, competition for residential mortgage lending is high. In 2005, NBA's market share of HMDA loans was .27% by number and .69% by dollar. It held a market share of 1.91% by number but 11.14% by dollars of small business loans. In addition, NBA originated more than \$3 million in CD loans in the Tucson MSA during the evaluation period.

As of June 30, 2005, NBA held a 26.6% deposit market share in the Yuma MSA. In this MSA, where 324 institutions originated HMDA loans in 2005, NBA ranks 10th. It held a HMDA market share of 1.81% by number and 1.74% by dollar in that year. It held a 4.47% market share by number and 29.48% by dollars of small loans to businesses in 2005 and ranked 8<sup>th</sup> among lenders in the MSA. In addition, NBA originated more than \$18 million in CD loans during the evaluation period.

## Distribution of Loans by Income Level of the Geography

NBA's overall geographic distribution of loans by income level of geography is good. This is based on adequate dispersion of home mortgage loans and excellent dispersion of small loans to businesses across geographies of all income levels. Housing affordability issues impacted our analysis in the Phoenix and Tucson MSAs. Conclusions were also influenced by the scarcity of owner occupied housing for HMDA lending, and by scant numbers of small businesses in some low- and moderate-income (LMI) geographies.

### Home Mortgage Loans

Refer to Tables 2 through 4 in the Appendix for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations/purchases.

The geographic distribution of NBA's home purchase loans within the Phoenix MSA is good. The portion of loans made in low-income geographies is somewhat lower than the percentage of owner occupied units in like geographies in 2003, but significantly exceeds the percentage of units later in the evaluation period. This is noteworthy because less than 2% of owner occupied housing in the MSA is located in low-income geographies. The portion of loans made in moderate-income geographies is lower than the portion of owner occupied units in those geographies throughout the evaluation period. NBA's market share of home purchase loans in low-income geographies significantly exceeds the bank's overall market share within the MSA consistently. The market share of NBA's loans within moderate-income geographies substantially meets the bank's overall market share in 2003, but is below the bank's overall market share in 2004.

The geographic distribution of NBA's home improvement loans in the Phoenix MSA is very poor. However, only 35 loans of this type were originated in the MSA during the evaluation period. This performance had minimal impact on the bank's lending test rating.

The geographic distribution of NBA's home refinance loans within the Phoenix MSA is poor. The portion of loans originated in both low- and moderate-income geographies is significantly lower than the percentage of owner occupied units within like geographies throughout the evaluation period. However, NBA's market share of these loans in low-income geographies significantly exceeds the bank's overall market share in 2004. Performance is weaker in 2003. NBA's market share in moderate-income geographies is lower than its overall market share within the MSA throughout the evaluation period.

The geographic distribution of NBA's home purchase loans within the Tucson MSA is adequate. The portion of loans made in low-income geographies is lower than the percentage of owner occupied units in like geographies in 2004 and 2005, with slightly stronger performance in 2003. The portion of loans made in moderate-income geographies is somewhat lower than the percentage of owner occupied units in like geographies in 2004 and 2005, but in 2003 the bank's portion of loans is near to the percentage of units in like geographies. NBA's market share of home purchase loans in low-income geographies meets its overall market share and in moderate-income geographies significantly exceeds its overall market share within the MSA in 2003. Although the bank's market share of loans within low

income geographies is significantly below its overall market share in 2004, its market share in moderate-income geographies substantially meets its overall market share in these years.

The geographic distribution of NBA's home improvement loans in the Tucson MSA is very poor. However, only nine loans of this type were originated in the MSA during the evaluation period. This performance had minimal impact on the bank's Lending Test rating.

The geographic distribution of NBA's home refinance loans within the Tucson MSA is very poor. The portion of loans originated in both low- and moderate- income geographies is significantly lower than the percentage of owner occupied units within like geographies throughout the evaluation period. NBA's market share of these loans in low-income geographies is lower than the bank's overall market share in 2003 and weaker in 2004. NBA's market share in moderate-income geographies is lower or significantly lower than its overall market share within the MSA throughout the evaluation period.

The geographic distribution of NBA's home purchase loans within the Yuma MSA is good. This AA has no low-income geographies. The portion of loans originated in moderate-income geographies is near to the percentage of owner occupied units within like geographies in 2004 and 2005; however performance is weaker in 2003. NBA's market share of these loans in moderate-income geographies significantly exceeds its overall market share in 2004; but in 2003, performance is weaker.

The geographic distribution of NBA's home improvement loans in the Yuma MSA is excellent. The portion of loans originated in moderate-income geographies significantly exceeds the percentage of owner occupied units within like geographies throughout the evaluation period. Not surprisingly, NBA's market share of these loans in moderate-income geographies significantly exceeds its overall market share. In this AA, 72 home improvement loans were originated in the MSA during the evaluation period. Nonetheless, this performance had minimal impact on the bank's lending test rating.

The geographic distribution of NBA's home refinance loans within the Yuma MSA is excellent. The portion of loans originated in moderate-income geographies significantly exceeds the percentage of owner occupied units within like geographies. In addition, NBA's market share of these loans in moderate-income geographies significantly exceeds the bank's overall market share within the MSA throughout the evaluation period.

## **Small Loans to Businesses**

Refer to Table 6 in the Appendix for the facts and data used to evaluate the geographic distribution of NBA's origination/purchase of small loans to businesses.

The geographic distribution of NBA's small loans to businesses in the Phoenix MSA is excellent. The portion of small loans to businesses originated in both low- and moderate-income geographies significantly exceeds the percentage of businesses in like geographies. NBA's market share of these loans in both low- and moderate-income geographies significantly exceeds its overall market share in the AA consistently throughout the evaluation period.

The geographic distribution of NBA's small loans to businesses in the Tucson MSA is excellent. The portion of small loans to businesses originated in both low- and moderate-income geographies significantly exceeds the percentage of businesses in like geographies. NBA's market share of these loans in both low- and moderate-income geographies significantly exceeds its overall market share in the AA consistently throughout the evaluation period.

The geographic distribution of NBA's small loans to businesses in the Yuma MSA is good. The portion of small loans to businesses originated in moderate-income geographies is near to the percentage of businesses in like geographies in 2004 and 2005. Performance is stronger in 2003. NBA's market share of these loans in moderate-income geographies substantially meets its overall market share in 2005. In 2003, performance is stronger in the AA.

## **Lending Gap Analysis**

We reviewed NBA's lending data which includes home mortgage loans and small loans to businesses made in the bank's AAs in order to identify gaps in the geographic distribution of these loans. After considering NBA's size, business focus, competition in the AAs, and demographic factors, we did not identify conspicuous gaps in lending.

## **Inside/Outside Ratio**

An analysis of NBA's lending data indicated that the vast majority of HMDA and small loans to businesses are originated or purchased in the bank's AAs. Based on 2004 and 2005 reported data, 98% of small loans to businesses and 96% of HMDA loans were originated inside NBA's AAs.

## **Distribution of Loans by Income Level of the Borrower**

NBA's overall distribution of loans by income level of the borrower and size of business is adequate. This is based on good dispersion of home mortgage loans among borrowers of different income levels and adequate dispersion of small loans to businesses.

## **Home Mortgage Loans**

Refer to Tables 8 through 10 in Appendix D for the facts and data used to evaluate the borrower distribution of NBA's home mortgage originations and purchases. The expectation for the percentage of lending to low-income borrowers is not as high as for moderate-income borrowers, presumably because it is more difficult for low income borrowers to afford a home, especially in areas of high housing costs. In evaluating the distribution of home mortgage loans, we also considered the decreasing affordability of homes in some of the full-scope AAs due to the rise in housing costs in relation to median family incomes during the evaluation period. In the Phoenix MSA, the median sales price of an existing single family residence rose 62% from \$152,500 to \$247,400 between 2003 and 2005. Similarly, in the Tucson MSA, sales prices rose 48% from \$156,300 to \$231,600.<sup>1</sup> See Appendix C for additional information on housing affordability in the full-scope areas.

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<sup>1</sup> National Association of Realtors 2006

NBA's distribution of home purchase loans to borrowers of different income levels in the Phoenix MSA is good in relation to the obstacles resulting from high housing costs. The portion of loans originated to low-income borrowers is lower than the percentage of low-income families within the AA in 2004 and 2005; performance was stronger in 2003. However, the portion of loans made to moderate-income borrowers is near to the percentage of moderate-income families within the MSA in 2004 and 2005. Performance is weaker in 2003. NBA's market share of home purchase loans to low-income borrowers significantly exceeds its overall market share for this type of loan within the MSA throughout the evaluation period. The bank's share of loans to moderate-income borrowers is significantly below its overall market share throughout the evaluation period.

NBA's distribution of home improvement loans to borrowers of different income levels in the Phoenix MSA is good. However, only 35 loans of this type were originated in the MSA during the evaluation period. This performance had minimal impact on the bank's lending test rating.

NBA's distribution of home refinance loans to borrowers of different income levels in the Phoenix MSA is poor in relation to the obstacles resulting from high housing costs. The portion of loans originated to low-income borrowers is significantly lower than the percentage of low-income families within the MSA, with performance in 2004 and 2005 somewhat stronger than in 2003. The portion of loans originated to moderate-income borrowers is significantly lower than the percentage of moderate-income families with performance in 2003 somewhat stronger than in 2004 and 2005. NBA's market share of loans to low-income families is somewhat lower than its overall market share of home refinance loans within the MSA, but performance is weaker in 2003 versus 2004. NBA's market share of loans to moderate-income families is significantly below its overall market share for loans of this type throughout the evaluation period.

NBA's distribution of home purchase loans to borrowers of different income levels in the Tucson MSA is adequate in relation to the obstacles resulting from high housing costs. Although the portion of loans originated to both low- and moderate-income borrowers is significantly lower than the percentage of low-income and moderate-income families within the AA in 2004 and 2005, performance is stronger in 2003, particularly in lending to moderate-income borrowers. NBA's market share of home purchase loans to low-income borrowers is lower than its overall market share for this type of loan in 2004, but its share in 2003 significantly exceeds its overall market share within the MSA. The bank's share of loans to moderate-income borrowers is significantly below its overall market share in 2004, but exceeds its share in 2003.

NBA's distribution of home improvement loans to borrowers of different income levels in the Tucson MSA is poor. However, only 14 loans of this type were originated in the MSA during the evaluation period. This performance had minimal impact on the bank's lending test rating.

NBA's distribution of home refinance loans to borrowers of different income levels in the Tucson MSA is poor. The portion of loans originated to both low- and moderate-income borrowers is significantly lower than the percentage of low- and moderate-income families within the AA throughout the evaluation period. NBA's market share of home refinance loans to both low- and moderate-income borrowers is also significantly below its overall market share for this type of loan throughout the evaluation period.

NBA's distribution of home purchase loans to borrowers of different income levels in the Yuma MSA is adequate. The portion of loans originated to low-income borrowers is significantly lower than the percentage of low-income families within the AA throughout the evaluation period. However, the portion of loans made to moderate-income borrowers significantly exceeds the percentage of moderate-income families within the MSA in 2004 and 2005; performance is weaker in 2003. NBA's market share of home purchase loans to both low- and moderate-income borrowers significantly exceeds its overall market share for this type of loan within the MSA in 2004; however, performance is considerably weaker in 2003.

NBA's distribution of home improvement loans to borrowers of different income levels in the Yuma MSA is good. The portion of loans originated to low-income borrowers is somewhat lower than the percentage of low-income families within the AA in 2004 and 2005, and performance is stronger in 2003. However, the portion of loans made to moderate-income borrowers is lower than the percentage of moderate-income families throughout the evaluation period. NBA's market share of home improvement loans to low-income borrowers significantly exceeds its overall market share for this type of loan throughout the evaluation period. The bank's market share of home improvement loans to moderate-income borrowers is significantly below its overall market share in 2004; performance in 2003 is stronger. Although 72 loans of this type were originated in the MSA during the evaluation period, this performance had minimal impact on the bank's lending test rating.

NBA's distribution of home refinance loans to borrowers of different income levels in the Yuma MSA is good. The portion of loans originated to low-income borrowers is significantly lower than the percentage of low-income families within the AA throughout the evaluation period. However, the portion of loans made to moderate-income borrowers is near to the percentage of moderate-income families in 2004 and 2005; performance is weaker in 2003. NBA's market share of home refinance loans to low-income borrowers significantly exceeds its overall market share for this type of loan throughout the evaluation period. The bank's market share of home refinance loans to moderate-income borrowers exceeds its overall market share in 2004 and meets its overall market share in 2003.

### **Small Loans to Businesses**

Refer to Table 11 in Appendix D for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

NBA's distribution of small business loans in the Phoenix MSA is adequate. The percentage of loans to small businesses (those with annual revenues of \$1 million or less) is lower than the percentage of small businesses in the MSA throughout the evaluation period. The percentage of loans originated in amounts of \$100 thousand or less is consistently low. NBA's market share of small loans to businesses with revenues under \$1 million exceeds its overall market share of reported loans in 2003, but is below its overall market share in 2005.

NBA's distribution of small business loans in the Tucson MSA is adequate. The percentage of loans to small businesses is lower than the percentage of small businesses in the MSA in 2004 and 2005, but performance is stronger in 2003. The percentage of loans originated in amounts of \$100 thousand or less is low. NBA's market share of small loans to businesses with revenues under \$1 million is significantly below its overall market share of reported loans.



NBA's distribution of small business loans in the Yuma MSA is good. The percentage of loans to small businesses is somewhat lower than the percentage of small businesses in the MSA in 2004 and 2005, but performance is stronger in 2003 when NBA exceeded this comparator. The percentage of loans originated in amounts of \$100 thousand or less is low. NBA's market share of small loans to businesses with revenues under \$1 million significantly exceeds its overall market share of reported loans throughout the evaluation period in this MSA.

## Community Development Lending

Refer to Table 1 in Appendix D for the facts and data used to evaluate the bank's level of community development (CD) lending.

NBA's community development lending had a positive impact on lending test performance in the Phoenix MSA. During the evaluation period, the bank originated five CD loans totaling nearly \$20.3 million, representing more than 17% of allocated Tier One Capital. Two of the CD loans were targeted to affordable housing needs and three targeted revitalization, stabilization, and/or economic development through job creation.

One of the bank's CD loans is complex in structure and is part of a major redevelopment plan for the downtown area of the City of Phoenix. It is complex because there are multiple funding sources and parties involved in the project. NBA's portion of this revitalization project is located in a low-income geography, replacing abandoned and deteriorating buildings. The bank's loan is responsive because it is part of a mixed use project that is significant to the success of the revitalization effort. Among other positive outcomes, it is expected to bring new jobs, new small businesses, and more opportunities for low- and moderate-income families.

One of NBA's CD loans in the Phoenix MSA is highly responsive to the need for affordable housing. NBA provides favorable financing terms on a revolving a line of credit to a local CDC to purchase and rehabilitate existing homes, primarily to be purchased by low- and moderate-income families. By year end 2005, the borrower had used this line to purchase, rehab and sell 15 homes to LMI families.

A third CD loan originated in the Phoenix MSA provided funding to renovate 83 residential homes in a low-income geography. The homes are very affordable with a selling price that is 55% of the median housing price in 2005. This CD loan is responsive because the project will ultimately provide 152 affordable housing units in the AA.

NBA's CD lending had a positive impact on lending test performance in the Tucson MSA. The bank originated three loans totaling more than \$3.9 million or 7.5% of allocated Tier One Capital. Two loans targeted affordable housing and the third provides a CD service to the community.

The largest CD loan in the Tucson MSA is part of a larger loan that includes four other financial institutions. The purpose is to develop 70 acres and construct 395 affordable housing units. Various developers are involved but 95 of the units will include interest free loans to qualified LMI families.

NBA's CD lending had a positive impact on lending test performance in the Yuma MSA. The bank originated five CD loans approximating \$18.6 million or 72% of allocated Tier One

Capital. Four of the CD loans targeted affordable housing development and one targeted economic development through revitalization, stabilization and job creation.

CD loans that target affordable housing in the Yuma MSA are highly responsive to identified credit needs in San Luis, Arizona. In this community, 54% of households make less than \$25 thousand annually, which is 72% of median non-MSA income.<sup>2</sup> The entire community has been designated “Colonias”<sup>3</sup> by HUD. NBA originated a \$3.4 million loan to fund a project that is located a few miles from the Mexican border, and its purpose is to build affordable housing for the farm and light industry workers. The loan funds the development of 207 affordable housing units.

Two additional loans that targeted affordable housing in the Yuma MSA totaled \$4.7 million. These developments are providing 785 housing units in San Luis, the majority of which are low-cost single family residences.

Also in the San Luis community within the Yuma MSA, the bank funded a \$2.7 million loan to construct a major grocery store in this underserved community. The loan creates jobs and provides goods and services in a moderate-income geography of the AA.

## **Product Innovation and Flexibility**

NBA uses flexible lending programs to enhance its efforts to meet the credit needs in its AAs, including those of LMI persons. Most of the housing related programs are through bond programs for first-time homebuyers, with the exception of NBA’s Community Lending Product. This program enables low- and moderate-income, first-time homebuyers to make home ownership a reality. Terms include a low down payment, and credit scores are not required. Over the six years, NBA has funded \$30 million of a \$50 million commitment to this product.

Flexible lending bond programs also enhanced NBA’s efforts to meet the credit needs in its AAs, including those of LMI persons. The use of these programs enabled the bank to be more effective in meeting community needs for affordable home loans. NBA closed 67 loans totaling more than \$8 million under several bond programs for first-time homebuyers. These programs offer down payment assistance and minimum borrower contribution in Maricopa and Pima Counties, as well as in a statewide program. NBA participates in several grant programs that help very low- to moderate-income families and individuals to obtain quality rental housing or become home owners. These programs are more fully described as community development services later in this performance evaluation.

During the evaluation period, NBA created a special team of lenders to accommodate the needs of LMI and first-time homebuyers. The team also focused on building relationships with various investors and programs to expand the number of products targeted to LMI borrowers. As a result, a significant increase in the number of loans closed under flexible lending programs occurred late in 2005 and in 2006. However, this new focus was not significant enough to impact our conclusions during the current evaluation period.

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<sup>2</sup> 2000 Census data

<sup>3</sup> Housing and Urban Development (HUD) has designated communities or parts of communities as “Colonias”, communities located near the U.S. Mexican Border that lack basic necessities such as utilities, roads, and running water.

## **Conclusions for Areas Receiving Limited-Scope Reviews**

Based on limited-scope reviews, NBA's Lending Test performance in the Flagstaff and Prescott MSAs is weaker than in the full-scope MSAs. Performance in the non-MSA areas of Arizona is not inconsistent with its overall Lending Test performance. Weaker performance is primarily due to a lower level of CD lending. Although performance in the non-MSA areas of Arizona shows weaker geographic distribution of both HMDA and small loans to businesses, CD lending was significant and had a positive impact on our conclusions. Especially noteworthy is a \$7.7 million construction loan that funded 95 affordable homes on the Navajo Nation. Overall, performance in limited-scope AAs did not negatively impact the Lending Test Rating at NBA.

## INVESTMENT TEST

NBA's performance under the Investment Test is rated "Outstanding." This is based on the high dollar volume of qualified investments and their responsiveness to the most pressing credit needs.

NBA funded \$19 million in investments, grants and donations in Arizona for the evaluation period from October 20, 2003 through October 2, 2006. This benefited 45 different entities that meet CD needs in the AAs. Within the context of the opportunities and resources available, this is considered an overall excellent level of investments that are responsive to a wide variety of important CD needs. There were also eight prior period investments totaling over \$12 million which included the \$4 million remaining balance of an investment in a health care facility that promotes CD for LMI individuals in Yuma, two FNMA loan pools with balances over \$3 million for Maricopa/Pinal, and Pima Counties, and three statewide SBIC funds totaling over \$2 million that had a positive impact on the rating.

A special investment also was made during the current evaluation period outside the bank's AA, which deserves mention. Under the regulation banks may receive positive consideration for CRA-related activities that benefit designated disaster areas within the broader statewide or regional areas surrounding a bank's AA. Generally, investments in other geographic areas would receive no credit. However, due to the unprecedented impact from hurricane Katrina, national banks located outside the designated disaster areas may receive positive CRA consideration for activities that revitalize or stabilize the designated disaster areas, provided that the banks have otherwise adequately met the CRA-related needs of their local communities. Because NBA has met this criterion, the bank receives additional credit for a \$1.5 million investment in the Jefferson Parrish Hurricane Relief Project. This is part of a \$15 million bond allocated through Zions, the bank's parent company, for clean-up of category B FEMA expenses. In addition, the bank made a \$15 thousand contribution to the American Red Cross Hurricane Katrina fund which was a matching contribution to funds raised by the bank's employees for victims of Hurricane Katrina.

### Conclusions for Areas Receiving Full-Scope Reviews

Refer to Table 14 for the facts and data used to evaluate the bank's performance under the Investment Test.

Investment Test performance in the Phoenix MSA is excellent. In this AA, NBA made an excellent level of investments that are responsive to a wide variety of important CD needs. NBA made four significant investments.

- The largest single investment was a \$15 million Maricopa County Revenue Bond for the new Human Services Campus (HSC) in downtown Phoenix to provide services to the homeless. HSC is a public/private partnership that includes faith based, private, nonprofit, philanthropic and local government participation. NBA displayed innovativeness and leadership by putting together a complex investment for the bank involving land exchanges with the city to make the project work. The bank also offered flexible features for the HSC bond that allowed for: draws rather than full up-front funding to make the product affordable; no call provisions; and early pay off without penalties. The project has already been proven successful with the provision of meals, beds, jobs and a reduction in crime in the Phoenix downtown area.

- Three other investments totaling \$375 thousand were to a CDC and CDFI which both provide micro loans to small businesses.

In addition, NBA made \$514 thousand in grants and donations in the Phoenix MSA. For the evaluation period, about 37% of the grants and donations were targeted to affordable housing, 35% to economic development, and 29% to community services. The investments, grants and donations benefited 32 different entities including two CDFIs, three CDCs, LISC, multiple nonprofits involved in providing small business funding, financial services, medical services, emergency shelters for battered women and youth, homeless shelters, rehabilitation, counseling, technical assistance, and other services to LMI areas or individuals and Native American organizations. Several entities partner with the bank in its Individual Development Accounts (IDA) program. NBA was the first bank in the state of Arizona to offer IDAs, which help create wealth in low-income families by stimulating savings for targeted purposes. The bank has provided accounts, grants and program administration for each of its partner organizations.

Investment Test performance in the Tucson MSA is excellent. In this AA, NBA made a good level of investments that are responsive to a variety of important CD needs. NBA made one new investment in a FNMA loan pool totaling over \$2 million targeted to affordable housing. As noted above, there is also a remaining balance of \$1.3 million in a prior period investment in another FNMA loan pool. In addition, NBA made \$20 thousand grants and donations. For the evaluation period, about 45% of the grants and donations were targeted to economic development, 35% to community services, and 20% to affordable housing. The grants and donations benefited 3 different entities.

Investment Test performance in the Yuma MSA is excellent. In this AA, the most critical CD need is affordable housing. NBA made a good level of 13 grants and donations totaling \$47 thousand. Nearly all the funds were targeted to organizations that provide affordable housing. Other grants and donations provided financing for LMI child care and shelters, and food banks. In addition, as noted above, there is also a remaining \$4 million balance in an investment in a health care facility that promotes CD for LMI individuals in Yuma. The investment was originally authorized by the state's Industrial Development Authority (IDA) that issues bonds for CD purposes.

### **Conclusions for Areas Receiving Limited-Scope Reviews**

Based on limited-scope reviews, Investment Test performance in the Coconino County (Flagstaff) MSA, and the non-MSA areas is not inconsistent with the bank's overall Investment Test performance. Although both had limited current period investments, a remaining balance of over \$2 million in statewide SBIC funds had a positive impact upon our evaluation. Performance in the Yavapai County (Prescott) MSA AA is weaker than the bank's overall performance in the state. The weaker performance in this MSA, which was new with the 2000 census, is centered in a lower amount of qualified investments relative to the bank's operations in this AA. The majority of the investments made in the three limited scope AAs consisted of the purchase of loan pools with a balance of over \$1 million. Other grants benefited affordable housing in the amount of \$30 thousand, services with \$8 thousand, and economic development with \$2 thousand.

## SERVICE TEST

### Conclusions for Areas Receiving Full-Scope Reviews

NBA's performance under the Service Test is rated "High Satisfactory." Based on full-scope reviews, the performance is good in the Phoenix and Yuma MSAs and is excellent in the Tucson MSA

#### Retail Banking Services

Refer to Tables 15 in Appendix D for the facts and data used to evaluate the distribution of the bank's branch and ATM delivery system, and branch opening and closings.

The accessibility of NBA's retail services is good. NBA's branch delivery systems are accessible to all portions of the bank's AAs. While its percentage of branches and ATMs actually within LMI areas is generally below the population percentages/demographics, the overall proximity of bordering branches and ATMs compensates. We considered the accessibility of NBA's services to LMI populations provided by branches and ATMs that border and are less than one mile from LMI areas. Additionally, seven of the bank's branches are located in designated "distressed and underserved" middle income areas.

In the Phoenix MSA, the AA consisting of the largest percentage of NBA's deposits, the bank's branch and ATM distribution is good. The bank has no branches or ATM locations in low-income geographies; however, only 5% of the population resides there. The bank has 17% of its branches and 13% of ATMs in moderate-income areas, where 31% of the population resides. However, NBA has three branches located within one mile of five different low-income areas and one branch less than a mile from a moderate-income geography. Factoring in these bordering branches positively impacts NBA's branch distribution in that 17% of the locations are accessible to low-income areas compared to 5% of the population, and 22% are accessible to moderate-income geographies compared to 31% of the population residing in these areas.

NBA's distribution of branches in the Tucson MSA is excellent. The bank exceeds the population demographics of its branches located in low and moderate income tracts within this MSA. The bank has 20% of its branches and 33% of its ATMs in low income geographies compared to only 5% of the population, and 40% of its branches and 17% of its ATMs in moderate income geographies compared to 34% of the population.

NBA's branch and ATM distribution in the Yuma MSA is adequate. There is no low-income geography in this MSA. In moderate-income geographies, the percentage of NBA's branches is slightly below the population demographics of 21% with 17% of its branches and ATMs located in these areas.

#### Changes in Branch Locations

NBA's branch opening and closing activity in LMI areas does not adversely affect the accessibility of its delivery systems. During the evaluation period, the bank opened four branches and closed three branches in the full-scope AAs. None of these openings or closings were in LMI geographies.

## Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

NBA's business hours and services offered at branch locations are reasonable. There are no major inconsistencies in the Phoenix, Tucson, and Yuma MSAs that inconvenience certain portions of the AAs, particularly LMI geographies or individuals.

NBA offers a wide array of products and services through many of its branch locations. NBA provides or administers products directed toward LMI individuals that include, but are not limited to, affordable home loan products, a savings account that features matching federal funds, and an innovative/flexible checking account for individuals with previously defaulted accounts.

Some of the more notable deposit and lending products and services offered by NBA include:

- **Fresh Start Checking:** This account is only available to individuals whose accounts have been closed by the bank or another financial institution due to default. To qualify the individual must repay the defaulted amount from the previously opened account and attend a training seminar. This account has a lower account opening and maintenance fee requirements.
- **Arizona Saves:** NBA is one of 19 financial institutions partnering with Arizona Saves to offer no fee savings accounts. It is a savings account designed to assist LMI individuals with limited resources to save. The program helps them to accumulate the funds to purchase their own home, start a business, or finance post secondary education. As of June 30, 2006, NBA had seven accounts of this type with \$49,292 in total deposits.
- **ATM Access Checking:** This account is a basic checking account targeted to individuals with limited resources or small opening deposit. A \$4 dollar maintenance fee covers the unlimited ATM withdraws, unlimited POS and Visa debit purchases, and free check safekeeping.
- **Individual Development Accounts (IDA):** These accounts are designed to assist LMI families in generating funds necessary to purchase their own home, start a business, or finance post secondary education. The IDA accrues interest and at the end of the participation period the amount in the account is matched by a sponsoring agency. NBA was the first bank in Arizona to offer this product. During our evaluation period, NBA had 264 accounts with total deposits of \$460,476 in this program.

NBA offers alternative delivery systems that include 24-hour telephone and on-line banking services available to all. Customers have additional means to transact banking business through the bank's deposit courier system and remote deposit product. The courier service is offered within the Phoenix and Tucson MSAs. In drawing our conclusions there was limited information on the size of businesses serviced by the courier routes. However, the location of the business has a positive impact on the bank's performance. In the Phoenix MSA 42% of courier customers are located in LMI geographies, compared to 31% of the businesses in these areas. In the Tucson MSA, 29% of courier customers are in LMI areas, compared to 36.5% of the businesses.

In 2001, NBA formed the Small Business Banking Center (SBBC) as a centralized support unit for underwriting, documenting, and servicing select small business loans in the bank. The SBBC uses a small business credit scoring model as its primary underwriting tool and manages loans to business with obligations of \$250,000 or less. The Center also manages all business loans guaranteed under the U.S. Small Business Administration (SBA) Express and 7(a) loan programs. NBA is an SBA preferred lender, allowing it to serve small businesses that do not qualify for conventional bank loans. As a preferred lender, NBA offers numerous products that meet the credit needs of small businesses in the state. During 2004 and 2005, NBA originated 47 SBA loans totaling \$14.4 million in Arizona.

### **Community Development Services**

NBA provided a high level of CD services to its community. During the evaluation period, NBA management and employees contributed numerous hours of service providing financial expertise to a wide array of community organizations. In its full-scope AAs, NBA was involved in 16 CD services targeted to LMI individuals or geographies, either through affordable housing, small business services, revitalization or stabilization, or other service initiatives. In addition, six CD services performed by bank employees are targeted statewide. In several instances, NBA provides a multi-dimensional relationship allowing greater impact in the community by providing not only a service to an organization but also CD investments and CD loans.

NBA's performance in providing CD services is excellent in the Phoenix MSA and good in the Tucson and Yuma MSAs. This performance was evidenced by the volume of CD services, the responsiveness of the services to community needs, and the leadership provided by NBA officers and employees. In addition to the services targeted in these areas, NBA actively participates in a number of CD services targeted statewide that positively impacted the overall Service Test rating.

NBA's performance and level of CD services (nine) provided in the Phoenix MSA is excellent. The services provided are responsive to the affordable housing and small business needs within the geography and participants often demonstrate a leadership role in the organizations. Highlights of some of the CD services targeted to LMI persons provided by bank management and employees follow:

- Serving as a Board member and Loan Committee Member to provide financial and technical expertise to a community development financial institution (CDFI). The CDFI funds loans and provides assistance for the advancement of small businesses, LMI housing, non-profit organizations and economic development. NBA also makes the bank's audit group available to provide free audit services to the organization.
- Providing experienced staff for homebuyer education classes at a local community development corporation (CDC). The CDC operates a CD land trust and an IDA program.
- Serving as a Board member of a local organization that is part of national initiative to promote savings. Participant served on the committee that developed the strategy to promote financial literacy.



- Providing financial and technical expertise by processing a CDC's down payment assistance-match funding requests under the Federal Home Loan Bank's (FHLB) Affordable Housing Program (AHP). Additionally, the officer administers NBA's portion of the organization's IDA program.
- Serving as Board member and chairperson of the finance committee and as a member of one of Arizona's largest CDCs. The corporation provides financial education, affordable housing, economic development, and social services throughout the state.

In the Tucson MSA, NBA provided four CD services. The level and performance in this MSA is good in responding to the needs in this area. The following highlight some of the CD services targeted to LMI persons provided by bank management and employees:

- Serving as a Board member of a city sponsored organization that provides low cost financing for qualified projects through revenue bonds. As a Board member, employee approves projects that meet the CD requirements.
- Serving as a Board member of an innovative organization that provides care for elderly and disabled, low income men. Care includes financial guidance and technical assistance.

NBA's performance and level of CD services in the Yuma MSA (three) is good. The quality of the services is highly responsive to the affordable housing and economic development needs of the community. The following is a example of services provided by NBA in the Yuma MSA:

- Serving as a Board member to an organization that assists Section 8 housing participants. Employee runs training programs that qualify LMI families for mortgage loans. The training programs also make use of flexible loan programs at NBA.

In addition to the CD services highlighted by AA, NBA's management and employees provide statewide services that are responsive to the needs of its communities, are sometimes innovative or complex, and demonstrate a leadership role. Highlights of some of these programs follow:

- NBA is actively involved with the Arizona Department of Housing which initiates a number of task forces designed to address the needs of the LMI population. An NBA team member serves on several committees that address specific housing challenges. For example, one committee initiates communication and partnerships among tribal groups to determine the need for services on Native American trust land, as well as infrastructure development and financial literacy. Another committee provided assistance in the development of a rural bond program that would provide funds for gap financing and/or down payment assistance to LMI buyers on tribal land and other rural communities.
- NBA sponsors numerous non-profit agencies in their efforts to obtain grants through the FHLB programs by dedicating an employee to assist nonprofit applicants. NBA is unique in its approach because it does not require the applicant to obtain a loan at NBA. During the evaluation period, awards to NBA sponsored nonprofits resulted in loans for 443 families, totaling \$4 million. Other programs include NBA team members facilitating

fund disbursements on programs designated to assist low-income households in purchasing a home. NBA provides additional services through two FHLB grant programs: Individual Development and Empowerment Account (IDEA) and Workforce Initiative Subsidy for Homeownership Program (WISH). IDEA provides matching funds for low-income households saving to buy a home. Under the WISH Program, NBA sets aside a portion of its annual AHP contribution to provide matching grants for down payment and closing cost assistance to eligible homebuyers. The WISH Program is designed to help working households live in high cost areas that are near their work locations. NBA's participation in these programs over the evaluation period resulted in 174 families and individuals receiving almost \$2 million in housing assistance.

- NBA was one of the only two financial institutions in the state of Arizona invited to be a member of the Governor's affordable housing task force. This task force was formed to identify innovative solutions for creating housing opportunities within the context of local market conditions. The NBA Officer served on the Adequate Finance Committee.

### **Conclusions for Areas Receiving Limited-Scope Reviews**

Based on limited-scope reviews the bank's performance under the Service Test in the Flagstaff and Prescott MSAs is not inconsistent with the bank's overall high satisfactory performance under the Service Test. The bank has one branch in the Flagstaff area located within one mile of a low-income geography. The performance in the non-MSA area is weaker as NBA has no branches or ATMs in LMI geographies. However, 2% of the population is in low income geographies while 16% is in moderate areas.

## Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and non-metropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test (excludes CD Loans): 1/1/03 to 12/31/05 Investment and Service Tests and CD Loans: (10/21/03 to 8/31/06)	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
NBA, Phoenix, Arizona	Home purchase, home improvement, home refinance, small business, and community development loans. Community development investments and community development services.	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
None Reviewed	NA	NA
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Phoenix-Mesa- Scottsdale MSA #38060	Full-Scope	MSA
Tucson MSA #46060	Full-Scope	MSA
Yuma MSA #49740	Full-Scope	MSA
Flagstaff MSA #22380	Limited-Scope	MSA
Prescott MSA #39140	Limited-Scope	MSA
Non-MSA Areas #99999	Limited-Scope	Non-MSA

## Appendix B: Summary of State Ratings

RATINGS: NATIONAL BANK OF ARIZONA				
Overall Bank:	Lending Test Rating*	Investment Test Rating	Service Test Rating	Overall Bank/State Rating
NATIONAL BANK OF ARIZONA	High Satisfactory	Outstanding	High Satisfactory	Satisfactory
State:				
ARIZONA	High Satisfactory	Outstanding	High Satisfactory	Satisfactory

(\*) The lending test is weighted more heavily than the investment and service tests in the overall rating.

## Appendix C: Market Profiles for Full-Scope Areas

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YUMA COUNTY (YUMA MSA).....	C 6

## Phoenix-Mesa-Scottsdale MSA

Demographic Information for Full Scope Area: Phoenix-Mesa-Scottsdale MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	696	6.18	28.59	34.20	30.17	0.86
Population by Geography	3,251,876	4.89	30.55	36.18	28.36	0.01
Owner-Occupied Housing by Geography	812,085	1.63	24.02	39.20	35.14	0.00
Business by Geography	213,462	5.64	25.79	31.31	37.22	0.05
Farms by Geography	4,419	2.38	25.55	36.28	35.75	0.05
Family Distribution by Income Level	814,264	19.62	18.79	21.81	39.78	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	312,744	7.38	44.00	34.86	13.76	0.00
Median Family Income		51,172	Median Housing Value		127,589	
HUD Adjusted Median Family Income for 2005		58,300	Unemployment Rate (2000 US Census)		2.35%	
Households Below Poverty Level		10%				

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2005 HUD updated MFI

The Phoenix-Mesa-Scottsdale (Phoenix) MSA, comprised of Maricopa and Pinal Counties, is NBA's largest assessment area (AA). Over 60% of the states population resides in the Phoenix MSA. This AA accounts for 43% of the bank's deposits. NBA has 34% of it branches and 29% of its ATMs within the Phoenix MSA. Maricopa County is one of the largest counties in the country covering over 9,200 square miles. The Arizona Department of Commerce reports that Maricopa County was the fastest growing county in the nation from 2000 to 2005. Pinal County has also experienced growth with the population increasing 37% since 2005. Portions of Maricopa and Pinal counties are designated Enterprise Zones.

Primary competitors include large banks, including Bank of America, JPMorgan Chase Bank, and Wells Fargo Bank. Analysis of FDIC deposit market share data as of June 30, 2005, shows 67 banks competing for deposits in this MSA of which NBA holds the eighth largest share at almost 3%.

The economy within this MSA is strong and is contributed to by a widely diversified economic base with industries including technology, manufacturing, construction, financial services, mining and retail trade. Home prices have risen substantially over our evaluation period due to the rapid population growth and investor speculation. According to the National Association of Realtors, since 2003 the median sale price of single family homes has increased from \$152 thousand in 2003 to \$247 thousand in 2005, representing a 63% increase. For the first time, housing prices in this area are well above the national average of \$219 thousand. In contrast, median family incomes have been stagnant over the same period, intensifying the need for affordable housing and affordable mortgage financing.

Maricopa County has 11 designated Enterprise Zones in central and southern areas of the City of Phoenix. Community credit needs within the Phoenix AA were determined through

community contacts. Contacts indicate that the community and financial service industry has not developed a strong infrastructure for community development to move forward. These contacts also indicate that the primary needs within this area include affordable housing for multi and single families, as well as financial education. Loans to small business, as well as opportunities to obtain financing from CD entities created by new market tax credits are also needed. Technical assistance and financial education for small businesses are other identified needs, particularly for business owners whose loan applications have been declined. Community contacts indicated that if small businesses are properly prepared with tools such as experience and reliable financial data, loans are available within the state.

### Tucson MSA

Demographic Information for Full Scope Area: Tucson						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	198	5.05	30.81	32.32	31.82	0.00
Population by Geography	843,746	4.41	33.94	33.03	28.62	0.00
Owner-Occupied Housing by Geography	213,620	2.25	24.74	36.40	36.61	0.00
Business by Geography	44,603	4.45	32.06	34.76	28.73	0.00
Farms by Geography	920	2.17	27.50	36.63	33.70	0.00
Family Distribution by Income Level	213,704	20.12	18.51	21.13	40.24	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	82,551	7.13	45.94	32.53	14.40	0.00
Median Family Income HUD Adjusted Median Family Income for 2005 Households Below Poverty Level		44,466 50,600 13%	Median Housing Value Unemployment Rate (2000 US Census)		111,290 2.48%	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2000 US Census and 2005 HUD updated MFI

The Tucson MSA consists of Pima County, which is the second largest county in Arizona and NBA’s second largest AA. The AA represents almost 20% of the bank’s deposits. NBA has 9% of its branches and 11% of its ATMs in Pima County. Major competitors in the MSA include JP Morgan Chase Bank, Bank of America, Wells Fargo Bank and Compass Bank. The major industries in Pima County are aerospace, bio-industry, environmental technology, manufacturing, software, and tele-services. Manufacturing employment has more than doubled in the last ten years due to relocation or expansion of high-technology manufacturers. Major employers are the University of Arizona, the State of Arizona, Pima County and local governments, the various school districts, Phelps Dodge, and Davis-Monathon Air Force Base.

Native American Indian reservations represent over 44% of the county with the Tohono O’odham Nation, Pascua Yaqui, and San Xavier reservations located in this geography. Pima County has Enterprise Zones in central Tucson, South Tucson and a central portion of the county. The biggest city in Pima County is Tucson. The City of Tucson is in the process of revitalizing its downtown area with a master plan project called “Rio Nuevo”. The plan includes an apartment complex that replaces a blighted property for elderly and the disabled, low-income public housing residents in the downtown area.

The City of Tucson Industrial Development Authority (IDA) has been designated by statute as a political subdivision of the State of Arizona. It is committed to improving the standard of living of the residents of the City of Tucson. The IDA provides financing to community development projects whenever traditional sources are not available. Its four goals include: economic development; affordable housing; downtown, neighborhood and community development; and self sustaining and fiscally sound investments. The IDA presents a community development opportunity for involvement by financial institutions and other community organizations.



Affordable housing is a chronic concern in the Tucson MSA. According to the National Association of Realtors, since 2003 the median sale price of single family homes has increased from \$156 thousand in 2003 to \$232 thousand in 2005, representing a 49% increase. As a result, housing prices in this area are well above the national average of \$219 thousand. In contrast, median family incomes have been stagnant over the same period, increasing the need for affordable housing and affordable mortgage financing.

**Yuma MSA**

Demographic Information for Full Scope Area: Yuma						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	33	0.00	21.21	48.48	27.27	3.03
Population by Geography	160,026	0.00	21.42	53.86	24.71	0.00
Owner-Occupied Housing by Geography	38,886	0.00	14.76	58.74	26.50	0.00
Business by Geography	6,068	0.00	25.33	46.44	28.21	0.02
Farms by Geography	362	0.00	19.61	49.72	30.66	0.00
Family Distribution by Income Level	41,979	19.11	18.62	21.71	40.55	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	15,841	0.00	30.41	54.32	15.26	0.00
Median Family Income HUD Adjusted Median Family Income for 2005 Households Below Poverty Level		34,661 39,500 16%	Median Housing Value Unemployment Rate (2000 US Census)		70,131 4.25%	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2000 US Census and 2005 HUD updated MFI

The Yuma MSA encompasses Yuma County. This AA represents nearly 10% of the bank's deposits. NBA has 11% of its branches and ATMs located in this geography. NBA holds the largest share of the deposits at 26% within the Yuma MSA. Major competitors in this market are JP Morgan Chase Bank, Wells Fargo Bank, Bank of America, and Armed Forces Bank.

Yuma County is 84% federally owned property. Much of Yuma County's 5,522 square miles is desert land accented by rugged mountains. The valley regions contain an abundance of arable land, which is irrigated with Colorado River water. The major industries in Yuma County are agriculture, military, retail trade, and tourism. The major employers are the state, county, and local governments, the local school districts, Marine Corps Air Station, Emco Harvesting, Dole Corporation, and Cocopah Bingo Casino.

All of Yuma County is designated an Enterprise Zone. Within the City of Yuma, the Affordable Housing Outreach and Education Strategy is a comprehensive approach to educate constituents about the benefits and challenges of affordable housing development. The goals of the city are to improve the environment for affordable housing development and revitalize older neighborhoods. This initiative presents a community development opportunity for involvement by financial institutions and other community organizations

According to the Department of Labor the county unemployment rate is exceptionally high at more than 16% in 2005. The county has consistently had the highest unemployment in the state. Yuma has a substantial amount of seasonal farm workers that go home to Mexico or California during the off season. Language barriers also inhibit workers from finding employment. A related issue is the lack of health insurance by LMI residents. Nearly 29% of county residents had no health insurance in 2000.

## Appendix D: Tables of Performance Data

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### Content of Standardized Tables

References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to Appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: (1) purchased loans are treated as originations/purchases and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MA/assessment area; (2) Partially geocoded loans (loans where no census tract is provided) cannot be broken down by income geographies and, therefore, are only reflected in the Total Loans in Core Tables 2 through 7 and part of Table 13; and (3) Partially geocoded loans are included in the Total Loans and % Bank Loans Column in Core Tables 8 through 12 and part of Table 13. Tables without data are not included in this PE.

The following is a listing and brief description of the tables:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MA/assessment area. Community development loans to statewide or regional entities or made outside the bank’s assessment area may receive positive CRA consideration. Refer to Interagency Q&As \_\_.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such loans. When such loans exist, insert a line item with the appropriate caption in the MA/Assessment Area column and record the corresponding numbers and amounts in the “Community Development Loans” column with the appropriate caption, such as: “Statewide/Regional,” “Statewide/Regional with potential benefit to one or more AAs” or “Out of Assessment Area.” “Out of Assessment Area” is used ONLY if the bank has otherwise adequately met the CD lending needs of its assessment area.
- Table 1a. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank in 2004 and 2005 only. Comparative demographics are updated with 2000 U.S. Census data. Tables 1a through 12 also contain loan data for 2004 and 2005 only
- Table 2. Geographic Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.
- Table 4. Geographic Distribution of Home Mortgage Refinance Loans** - See Table 2.

- Table 5. Geographic Distribution of Multifamily Loans** - Table not included because of insignificant volume.
- Table 6. Geographic Distribution of Small Loans to Businesses** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small business data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 7. Geographic Distribution of Small Loans to Farms** – Table not included because of insignificant volume.
- Table 8. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MA/assessment area. The table also presents market share information based on the most recent aggregate market data available.
- Table 9. Borrower Distribution of Home Improvement Loans** - See Table 8.
- Table 10. Borrower Distribution of Refinance Loans** - See Table 8.
- Table 11. Borrower Distribution of Small Loans to Businesses** - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.
- Table 12. Borrower Distribution of Small Loans to Farms** - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm. Market share information is presented based on the most recent aggregate market data available.
- Table 13. Geographic and Borrower Distribution of Consumer Loans** – Table not included because of insignificant volume.

**Table 14. Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior-period investments are reflected at their book value as of the end of the evaluation period. Current period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must be legally binding and tracked and recorded by the bank’s financial reporting system.

A bank may receive positive consideration for qualified investments in statewide/regional entities or made outside of the bank’s assessment area. See Interagency Q&As \_\_.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such investments. When such investments exist, insert a line item in the MA/Assessment Area column and record the corresponding numbers and amounts in the “Qualified Investments” column with the appropriate caption, such as: “Statewide/Regional,” “Statewide/Regional with potential benefit to one or more AAs” or “Out of Assessment Area.” “Out of the Assessment Area” is used ONLY if the bank has otherwise adequately met the qualified investment needs of its assessment area.

**Table 15. Distribution of Branch Delivery System and Branch Openings/Closings** - Compares the percentage distribution of the number of the bank’s branches in low-, moderate-, middle-, and upper-income geographies to the percentage of the population within each geography in each MA/AA. The table also presents data on branch openings and closings in each MA/AA.

**Table 1. Lending Volume**

LENDING VOLUME		Geography: STATE OF ARIZONA						Evaluation Period: OCTOBER 20, 2003 TO AUGUST 31, 2006				
MA/Assessment Area:	% of Rated Area Loans (#) in MA/AA <sup>*</sup>	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans <sup>**</sup>		Total Reported Loans		% of Rated Area Deposits in MA/AA <sup>***</sup>
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
<b>Full Review:</b>												
Phoenix-Mesa-Scottsdale	38.55	1,528	640,185	3,121	637,669	14	4,808	5	20,298	4,668	1,302,960	43.11
Tucson	16.69	649	185,873	1,359	253,024	11	3,177	3	3,909	2,022	445,983	19.44
Yuma	10.58	789	85,928	458	77,607	30	3,397	5	18,585	1,282	185,517	9.60
<b>Limited Review:</b>												
Flagstaff	6.68	445	104,566	363	56,172	1	80	0	0	809	160,818	5.76
Non-MSA Areas of Arizona (includes Prescott for 2003)	20.28	1,621	254,791	814	111,332	15	506	6	44,925	2,456	411,554	10.96
Prescott (2004-5 only)	7.22	355	77,628	519	79,505	0	0	1	1,000	875	158,133	11.13

<sup>\*</sup> Loan Data covers the periods 2003, 2004 and 2005. Rated area refers to either the state or multi-state MA rating area.

<sup>\*\*</sup> The evaluation period for Community Development Loans is October 20, 2003 to August 31, 2006.

<sup>\*\*\*</sup> Deposit Data as of June 30, 2005. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

**Table 1a. Lending Volume**

LENDING VOLUME		Geography: STATE OF ARIZONA						Evaluation Period: JANUARY 1, 2004 TO DECEMBER 31, 2005				
MA/Assessment Area:	% of Rated Area Loans (#) in MA/AA	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans**		Total Reported Loans		% of Rated Area Deposits in MA/AA***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
<b>Full Review:</b>												
Phoenix-Mesa-Scottsdale	40.73	845	425,508	2,145	438,393	10	3,508	n/a	n/a	3,000	442,326	43.11
Tucson	16.82	354	126,103	879	153,491	6	1,802	n/a	n/a	1,239	281,396	19.44
Yuma	9.27	390	43,784	277	45,665	16	1,701	n/a	n/a	683	91,150	9.60
<b>Limited Review:</b>												
Flagstaff	6.27	232	69,527	229	35,069	1	80	n/a	n/a	462	104,760	5.76
Non-MSA Areas of Arizona	15.08	727	131,539	372	48,166	9	255	n/a	n/a	1,108	179,960	10.96
Prescott	11.87	355	77,628	519	79,505	0	0	n/a	n/a	874	157,133	11.13

\* Loan Data covers the period January 1, 2004 through December 31, 2005 only. Rated area refers to either the state or multi-state MA rating area.

\*\* Community Development Loans for the full evaluation period are shown on Table 1.

\*\*\* Deposit Data as of June 30, 2005. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

**Table 2. Geographic Distribution of Home Purchase Loans**

Geographic Distribution: HOME PURCHASE DECEMBER 31, 2005		Geography: STATE OF ARIZONA								Evaluation Period: JANUARY 1, 2004 TO					
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography				
	#	% of Total**	% Owner Occ Units***	% BANK Loans****	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Phoenix-Mesa-Scottsdale	705	34.51	1.63	2.41	24.02	16.45	39.20	28.09	35.14	53.05	0.14	0.33	0.11	0.09	0.19
Tucson	261	12.78	2.25	1.15	24.74	17.62	36.40	24.90	36.61	56.32	0.27	0.00	0.25	0.22	0.33
Yuma	218	10.67	0.00	0.00	14.76	13.30	58.74	43.58	26.50	43.12	2.27	0.00	3.05	2.14	2.22
<b>Limited Review:</b>															
Flagstaff	168	8.22	1.04	20.24	18.90	1.79	51.74	47.02	28.33	30.95	1.85	24.07	0.91	1.35	2.12
Non MSA Areas of Arizona	458	22.42	1.25	0.00	12.99	2.18	65.98	62.66	19.78	35.15	1.18	0.00	1.78	1.03	1.41
Prescott	233	11.40	0.00	0.00	2.46	0.43	76.79	77.25	20.76	22.32	1.35	0.00	0.75	1.28	1.62

\* Based on 2004 Peer Mortgage Data (Western)

\*\* Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2000 Census information.

\*\*\*\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)



**Table 3. Geographic Distribution of Home Improvement Loans**

Geographic Distribution: HOME IMPROVEMENT DECEMBER 31, 2005			Geography: STATE OF ARIZONA						Evaluation Period: JANUARY 1, 2004 TO						
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*				
	#	% of Total**	% Owner Occ***	% BANK Loans****	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Phoenix-Mesa-Scottsdale	26	15.48	1.63	0.00	24.02	3.85	39.20	34.62	35.14	61.54	0.07	0.00	0.00	0.00	0.20
Tucson	9	5.36	2.25	0.00	24.74	11.11	36.40	44.44	36.61	44.44	0.12	0.00	0.14	0.00	0.23
Yuma	44	26.19	0.00	0.00	14.76	27.27	58.74	54.55	26.50	18.18	3.34	0.00	7.69	3.47	1.83
<b>Limited Review:</b>															
Flagstaff	8	4.76	1.04	0.00	18.90	0.00	51.74	87.50	28.33	12.50	0.40	0.00	0.00	0.75	0.00
Non MSA Areas of Arizona	65	38.69	1.25	0.00	12.99	12.31	65.98	75.38	19.78	12.31	2.92	0.00	6.06	3.24	1.35
Prescott	16	9.52	0.00	0.00	2.46	6.25	76.79	81.25	20.76	12.50	1.55	0.00	11.11	1.51	0.90

\* Based on 2004 Peer Mortgage Data (Western)

\*\* Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2000 Census information.

\*\*\*\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table 4. Geographic Distribution of Home Mortgage Refinance Loans**

Geographic Distribution: HOME MORTGAGE REFINANCE DECEMBER 31, 2005			Geography: STATE OF ARIZONA								Evaluation Period: JANUARY 1, 2004 TO				
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*				
	#	% of Total**	% Owner Occ.*** Units	% BANK Loans****	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Phoenix-Mesa-Scottsdale	113	16.54	1.63	0.88	24.02	7.96	39.20	25.66	35.14	65.49	0.03	0.05	0.02	0.01	0.06
Tucson	80	11.71	2.25	0.00	24.74	11.25	36.40	16.25	36.61	72.50	0.12	0.00	0.06	0.05	0.20
Yuma	125	18.30	0.00	0.00	14.76	21.60	58.74	44.80	26.50	33.60	1.96	0.00	3.24	2.07	1.45
<b>Limited Review:</b>															
Flagstaff	56	8.20	1.04	5.36	18.90	5.36	51.74	64.29	28.33	25.00	0.48	0.00	1.32	0.42	0.46
Non MSA Areas of Arizona	204	29.87	1.25	0.00	12.99	3.43	65.98	72.06	19.78	24.51	0.88	0.00	1.24	0.95	0.68
Prescott	105	15.37	0.00	0.00	2.46	1.90	76.79	78.10	20.76	20.00	0.74	0.00	0.83	0.73	0.76

\* Based on 2004 Peer Mortgage Data (Western)

\*\* Home refinance loans originated and purchased in the MA/AA as a percentage of all home refinance loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2000 Census information.

\*\*\*\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table 6. Geographic Distribution of Small Loans to Businesses**

Geographic Distribution: SMALL LOANS TO BUSINESSES DECEMBER 31, 2005			Geography: STATE OF ARIZONA								Evaluation Period: JANUARY 1, 2004 TO DECEMBER 31, 2005				
MA/Assessment Area:	Total Small Business Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*				
	#	% of Total**	% of Busi- nesses**	% BANK Loans	% of Busi- nesses* **	% BANK Loans	% of Busi- nesses* **	% BANK Loans	% of Busi- nesses* **	% BANK Loans	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Phoenix-Mesa- Scottsdale	2,145	48.52	5.64	10.30	25.79	29.28	31.31	26.25	37.22	34.17	1.05	2.44	1.44	0.89	0.89
Tucson	879	19.88	4.45	6.03	32.06	38.57	34.76	32.65	28.73	22.75	1.94	4.23	2.64	1.95	1.34
Yuma	277	6.27	0.00	0.00	25.33	23.83	46.44	40.79	28.21	35.38	4.47	0.00	4.01	4.66	5.09
<b>Limited Review:</b>															
Flagstaff	229	5.18	8.12	6.99	12.05	13.10	56.29	62.88	23.55	17.03	2.56	3.85	3.94	2.86	1.58
Non MSA Areas of Arizona	372	8.41	0.20	0.00	7.04	4.03	74.94	86.02	17.82	9.95	1.71	0.00	2.07	2.17	0.87
Prescott	519	11.74	0.00	0.00	8.84	10.40	69.91	64.35	21.25	25.24	3.72	0.00	5.62	3.90	4.03

\* Based on 2005 Peer Small Business Data -- US and PR

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Source Data - Dun and Bradstreet (2005).

**Table 8. Borrower Distribution of Home Purchase Loans**

Borrower Distribution: HOME PURCHASE 2005		Geography: STATE OF ARIZONA								Evaluation Period: JANUARY 1, 2004 TO DECEMBER 31, 2005					
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share <sup>*</sup>				
	#	% of Total <sup>**</sup>	% Families <sup>***</sup>	% BANK Loans <sup>****</sup>	% Families <sup>4</sup>	% BANK Loans <sup>**</sup>	% Families <sup>***</sup>	% BANK Loans <sup>****</sup>	% Families <sup>***</sup>	% BANK Loans <sup>**</sup>	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Phoenix-Mesa-Scottsdale	705	34.51	19.62	9.90	18.79	17.13	21.81	9.45	39.78	63.52	0.16	0.27	0.11	0.07	0.22
Tucson	261	12.78	20.12	2.45	18.51	8.57	21.13	9.80	40.24	79.18	0.29	0.17	0.15	0.14	0.43
Yuma	218	10.67	19.11	6.54	18.62	20.56	21.71	22.90	40.55	50.00	2.63	6.85	3.73	2.36	2.22
<b>Limited Review:</b>															
Flagstaff	168	8.22	22.42	0.63	16.91	4.38	20.66	13.75	40.01	81.25	1.98	0.00	0.93	1.77	2.31
Non MSA Areas of Arizona	458	22.42	18.81	2.53	17.96	8.06	21.16	12.67	42.08	76.73	1.28	2.21	1.51	0.97	1.30
Prescott	233	11.40	17.21	1.88	20.02	9.39	23.60	17.37	39.17	71.36	1.41	0.57	0.89	1.14	1.69

<sup>\*</sup> Based on 2004 Peer Mortgage Data (Western)

<sup>\*\*</sup> As a percentage of loans with borrower income information available. No information was available for 4.9% of loans originated and purchased by bank.

<sup>\*\*\*</sup> Percentage of Families is based on the 2000 Census information.

<sup>\*\*\*\*</sup> Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

<sup>4</sup> Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table 9. Borrower Distribution of Home Improvement Loans**

Borrower Distribution: HOME IMPROVEMENT DECEMBER 31, 2005		Geography: STATE OF ARIZONA									Evaluation Period: JANUARY 1, 2004 TO				
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share*				
	#	% of Total**	% Fami- lies***	% BANK Loans****	% Fami- lies <sup>5</sup>	% BANK Loans****	% Fami- lies***	% BANK Loans****	% Fami- lies***	% BANK Loans****	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Phoenix-Mesa- Scottsdale	26	15.48	19.62	12.00	18.79	16.00	21.81	16.00	39.78	56.00	0.08	0.00	0.04	0.03	0.14
Tucson	9	5.36	20.12	0.00	18.51	0.00	21.13	22.22	40.24	77.78	0.13	0.00	0.00	0.00	0.26
Yuma	44	26.19	19.11	15.91	18.62	11.36	21.71	31.82	40.55	40.91	3.45	11.11	1.82	3.85	2.76
<b>Limited Review:</b>															
Flagstaff	8	4.76	22.42	25.00	16.91	25.00	20.66	25.00	40.01	25.00	0.42	5.56	0.00	0.00	0.00
Non MSA Areas of Arizona	65	38.69	18.81	14.06	17.96	25.00	21.16	17.19	42.08	43.75	3.05	9.09	5.78	1.62	2.23
Prescott	16	9.52	17.21	23.08	20.02	30.77	23.60	7.69	39.17	38.46	1.21	2.38	1.96	0.71	0.95

\* Based on 2004 Peer Mortgage Data (Western)

\*\* As a percentage of loans with borrower income information available. No information was available for 3.0% of loans originated and purchased by bank.

\*\*\* Percentage of Families is based on the 2000 Census information.

\*\*\*\* Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

<sup>5</sup> Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table 10. Borrower Distribution of Home Mortgage Refinance Loans**

Borrower Distribution: HOME MORTGAGE REFINANCE DECEMBER 31, 2005		Geography: STATE OF ARIZONA										Evaluation Period: JANUARY 1, 2004 TO				
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share					
	#	% of Total**	% Families***	% BANK Loans****	% Families <sup>6</sup>	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans***	Overall	Low	Mod	Mid	Upp	
<b>Full Review:</b>																
Phoenix-Mesa-Scottsdale	113	16.54	19.62	7.92	18.79	6.93	21.81	10.89	39.78	74.26	0.04	0.03	0.01	0.01	0.06	
Tucson	80	11.71	20.12	2.60	18.51	6.49	21.13	3.90	40.24	87.01	0.15	0.00	0.06	0.03	0.26	
Yuma	125	18.30	19.11	4.20	18.62	16.81	21.71	26.89	40.55	52.10	2.49	2.91	2.63	3.48	2.02	
<b>Limited Review:</b>																
Flagstaff	56	8.20	22.42	4.17	16.91	16.67	20.66	16.67	40.01	62.50	0.44	0.00	0.74	0.26	0.47	
Non MSA Areas of Arizona	204	29.87	18.81	6.19	17.96	12.37	21.16	16.49	42.08	64.95	1.04	2.81	1.03	0.91	0.99	
Prescott	105	15.37	17.21	6.38	20.02	8.51	23.60	25.53	39.17	59.57	0.83	1.15	0.62	0.57	0.98	

\* Based on 2004 Peer Mortgage Data (Western)

\*\* As a percentage of loans with borrower income information available. No information was available for 7.3% of loans originated and purchased by bank.

\*\*\* Percentage of Families is based on the 2000 Census information.

\*\*\*\* Home refinance loans originated and purchased in the MA/AA as a percentage of all home refinance loans originated and purchased in the rated area.

<sup>6</sup> Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table 11. Borrower Distribution of Small Loans to Businesses**

Borrower Distribution: SMALL LOANS TO BUSINESSES DECEMBER 31, 2005			Geography: STATE OF ARIZONA			Evaluation Period: JANUARY 1, 2004 TO DECEMBER 31, 2005			
MA/Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Market Share	
	#	% of Total**	% of Businesses***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev\$ 1 Million or Less
<b>Full Review:</b>									
Phoenix-Mesa-Scottsdale	2,145	48.52	61.37	35.76	54.45	17.76	27.79	1.05	0.76
Tucson	879	19.88	62.79	30.60	60.41	17.06	22.53	1.94	1.04
Yuma	277	6.27	61.82	48.74	63.18	16.97	19.86	4.47	4.77
<b>Limited Review:</b>									
Flagstaff	229	5.18	63.82	44.10	66.81	15.28	17.90	2.56	2.28
Non MSA Areas of Arizona	372	8.41	64.80	55.65	65.59	19.35	15.05	1.71	1.78
Prescott	519	11.74	68.50	47.59	63.20	16.38	20.42	3.72	2.81

\* Based on 2005 Peer Small Business Data -- US and PR

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&B - 2005).

\*\*\*\* Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 18.73% of small loans to businesses originated and purchased by the bank.

**Table 12. Borrower Distribution of Small Loans to Farms**

Borrower Distribution: SMALL LOANS TO FARMS DECEMBER 31, 2005		Geography: STATE OF ARIZONA				Evaluation Period: JANUARY 1, 2004 TO			
MA/Assessment Area:	Total Small Loans to Farms		Farms With Revenues of \$1 million or less		Loans by Original Amount Regardless of Farm Size			Market Share	
	#	% of Total**	% of Farms***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev\$ 1 Million or Less
<b>Full Review:</b>									
Phoenix-Mesa-Scottsdale	10	23.81	79.61	60.00	20.00	10.00	70.00	0.59	0.75
Tucson	6	14.29	84.02	50.00	33.33	0.00	66.67	2.29	3.37
Yuma	16	38.10	67.96	62.50	68.75	25.00	6.25	10.89	9.84
<b>Limited Review:</b>									
Flagstaff	1	2.38	90.36	0.00	100.00	0.00	0.00	4.00	0.00
Non MSA Areas of Arizona	9	21.43	89.19	100.00	100.00	0.00	0.00	2.04	3.25
Prescott	0	0.00	90.28	0.00	0.00	0.00	0.00	0.00	0.00

\* Based on 2005 Peer Small Business Data -- US and PR

\*\* Small loans to farms originated and purchased in the MA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

\*\*\* Farms with revenues of \$1 million or less as a percentage of all farms (Source D&B - 2005).

\*\*\*\* Small loans to farms with revenues of \$1 million or less as a percentage of all loans reported as small loans to farms. No information was available for 0.00% of small loans to farms originated and purchased by the bank.



Table 14. Qualified Investments

QUALIFIED INVESTMENTS 2006		Geography: STATE OF ARIZONA				Evaluation Period: OCTOBER 20, 2003 TO AUGUST 31,			
MA/Assessment Area:	Prior Period Investments		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
<b>Full Review:</b>									
Phoenix-Mesa-Scottsdale	1	2,026	84	15,889	85	17,915	56.77	1	80
Tucson	1	1,297	7	2,028	8	3,325	10.54	0	0
Yuma	1	4,235	13	47	14	4,282	13.57	0	0
<b>Limited Review:</b>									
Flagstaff	1	2,447	10	476	11	2,923	9.26	0	0
Non MSA Areas of Arizona	4	2,507	1	1	5	2,508	7.95	0	0
Prescott	0	0	4	602	4	602	1.91	0	0

\* 'Prior Period Investments' means investments made in a previous period that are outstanding as of the examination date.

\*\* 'Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

**Table 15. Distribution of Branch Delivery System and Branch Openings/Closings**

DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS JANUARY 1, 2004 TO AUGUST 31, 2006								Geography: STATE OF ARIZONA				Evaluation Period:					
MA/AA:	Deposits	Branches						Branch Openings/Closings				Population					
	% of Rated Area Deposits in AA	# of BANK Branches	% of Rated Area Branches in AA	Location of Branches by Income of Geographies (%)				# of Branch Openings	# of Branch Closings	Net change in Location of Branches (+ or -)				% of Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
<b>Full Review:</b>																	
Phoenix-Mesa-Scotts	43.11	18	33.96	0.00	16.67	38.89	44.44	3	1	0	0	0	+2	4.89	30.55	36.18	28.36
Tucson	19.44	5	9.43	20.00	40.00	20.00	20.00	1	2	0	0	-1	0	4.41	33.94	33.03	28.62
Yuma	9.60	6	11.32	0.00	16.67	83.33	0.00	0	0	0	0	0	0	0.00	21.42	53.86	24.71
<b>Limited Review:</b>																	
Flagstaff	5.76	4	7.55	0.00	0.00	100.00	0.00	0	0	0	0	0	0	6.44	21.16	51.31	21.08
Non MSAs of Az	10.96	13	24.53	0.00	0.00	92.31	7.69	2	2	0	-1	+2	-1	1.82	15.89	66.02	16.27
Prescott	11.13	7	13.21	0.00	0.00	71.43	28.57	0	1	0	0	-1	0	0.00	4.22	77.74	18.04

### Distribution of Branch and ATM Delivery System

Distribution of Branch and ATM Delivery System				Geography: STATE OF ARIZONA				Evaluation Period: JANUARY 1, 2004 TO AUGUST 31, 2006									
MA/AA:	Deposits	Branches						ATMs				Population					
	% of Total Bank Deposits	# of Bank Branches	% of Total Bank Branches	Location of Branches by Income of Geographies (%)				# of Bank ATMs	% of Total Bank ATMs	Location of ATMs by Income of Geographies				% of Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
<b>Full Review:</b>																	
Phoenix-Mesa-Scotts	43.11	18	33.96	0.00	16.67	38.89	44.44	16	28.57	0	12.50	37.50	50.00	4.89	30.55	36.18	28.36
Tucson	19.44	5	9.43	20.00	40.00	20.00	20.00	6	10.71	0	33.33	16.67	50.00	4.41	33.94	33.03	28.62
Yuma	9.60	6	11.32	0.00	16.67	83.33	0.00	6	10.71	0	16.67	83.33	0	0.00	21.42	53.86	24.71
<b>Limited Review:</b>																	
Flagstaff	5.76	4	7.55	0.00	0.00	100.00	0.00	6	10.71	0	0	83.33	16.67	6.44	21.16	51.31	21.08
Non MSAs of Az	10.96	13	24.53	0.00	0.00	92.31	7.69	14	25.00	0	0	92.86	7.14	1.82	15.89	66.02	16.27
Prescott	11.13	7	13.21	0.00	0.00	71.43	28.57	8	14.29	0	0	75.00	25.00	0.00	4.22	77.74	18.04