



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

June 11, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Meridian Bank, National Association
Charter Number 24320**

**2001 Wickenburg Way
Wickenburg, AZ 85390**

**Comptroller of the Currency
Arizona & New Mexico
9633 South 48th Street Suite 265
Phoenix, AZ 85044**

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, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Lending Test is rated: *Outstanding*.

The Community Development Test is rated: *Satisfactory*.

The overall performance of Meridian Bank N.A. (MBNA) is satisfactory. This conclusion is based on the following results from our review.

- The lending test performance is outstanding, with three out of four lending categories exceeding standards for that category:
 - The loan-to-deposit (LTD) ratio is more than reasonable.
 - A substantial majority of the loans in the initial sample were made inside the Assessment Area (AA).
 - Lending activities represent a reasonable penetration to businesses of different sizes.
 - Geographic distribution of loans represents an excellent dispersion throughout the AA.
- The community development (CD) test is satisfactory.
 - CD lending demonstrates adequate responsiveness to needs in the AA.
 - Qualified investments demonstrate poor responsiveness to needs in the AA.
 - The level of other community development services is poor.
 - Access to retail banking services in low- and moderate-income (LMI) geographies is adequate.

SCOPE OF EXAMINATION

This Performance Evaluation (PE) evaluates information since the November 17, 2003 Community Reinvestment Act (CRA) examination. We identified business loans as the bank's primary product based on the number and dollar amount of loans originated in 2005, 2006 and through March 31, 2007. CD activities are evaluated from the date of the bank's last PE through June 21, 2007. No affiliate activities were reviewed as a part of this examination.

We pulled an original sample of 20 business loans originated during the evaluation period. The data from this business loan sample was used for the inside/outside AA ratio. The bank has only one AA, Maricopa County in Arizona. To perform other lending tests, we eliminated loans outside the AA from the sample and added enough loans to provide a sample of 20 business loans inside the AA.

DESCRIPTION OF INSTITUTION

MBNA is an intrastate bank headquartered in Wickenburg, AZ. MBNA is a member of a one-bank holding company, Marquette Financial Companies, of Minneapolis, Minnesota, and is 100 percent owned by them. MBNA has three affiliates: Marquette Equipment Leasing, CFS, Inc. (loan servicing), and Escrow Funding Service (lending). It also has eight lending-related

operating subsidiaries: Builders Mortgage Company, LLC , Contractors Financial Services, Inc., Marquette Business Credit, Inc., Marquette Commercial Finance, Inc., Marquette Funding, Inc., Marquette Mortgage, LLC, Meridian Construction Capital, LLC, and MFC Capital Funding, Inc and one insurance-related operating subsidiary: Meridian Title Insurance Company, LLC. The lending activities of these entities were not evaluated as part of this examination since the bank did not ask us to evaluate any of the affiliate activities, and they are largely outside the bank's AA.

All of the bank's nine branches are in Maricopa County, Arizona. One branch (Central) is located in a moderate-income census tract (CT). Four branches are located in middle-income CTs (the main office in Wickenburg, Gilbert, Avondale, and Glendale). The remaining four branches are in upper income CTs (Fountain Hills, Kierland, Peoria, and McDowell Mountain Ranch). There was one branch opening during the review period in an upper-income CT (Kierland). There were no branch closings. Another new branch is scheduled to open in August 2007 (Gateway) in a middle-income CT. See Community Development Services section for additional details.

As of March 31, 2007, MBNA had nine offices and total assets of over \$2 billion, and \$219 million in Tier 1 Capital. The bank will be examined as a Large Bank for CRA purposes at the next examination.

The bank's strategy is focused on business lending. As of March 31, 2007, the bank's net loans totaled nearly \$1.7 billion, representing 80 percent of total assets. The commercial business loan mix is weighted towards real estate with a combined 48 percent in construction and development, and multifamily. Commercial and industrial loans represent another 41 percent in business lending activity. Non-business loans include 4 percent in 1-4 family residential and home equity loans, and less than 1 percent in loans to individuals.

The bank received a rating of Satisfactory under the Small Bank test at the prior evaluation dated November 11, 2003. The bank offers a full range of deposit and loan products. There are no financial or legal impediments impairing the bank's ability to perform under the CRA.

DESCRIPTION OF MARICOPA COUNTY ASSESSMENT AREA

MBNA's AA consists of the County of Maricopa, which is part of the Phoenix-Mesa-Scottsdale MSA. The county is one of the largest in the country, stretching roughly 100 miles in diameter and covering a total of 9,222 square miles. Phoenix and several smaller towns and cities are all within the county, including Apache Junction, Avondale, Buckeye, Carefree, Cave Creek, Chandler, Fountain Hills, Gilbert, Glendale, Goodyear, Litchfield Park, Mesa, Peoria, Queen Creek, Scottsdale, Surprise, Sun City, Tempe, and Wickenburg. There is also a large unincorporated area in the county, and several Native American communities, including the Fort McDowell Mohave Apache, the Salt River Pima Maricopa Indian, and the Gila River Indian communities.

Based on the 2000 census, which is the database used for this analysis, there are 663 CTs in Maricopa County. Those CTs include 208 (31 percent) upper-, 230 (35 percent) middle-, 181 (27 percent) moderate-, and 40 (6 percent) low-income tracts. There are also 4 "NA" tracts (usually consisting of prisons, universities, etc., for which there is no reported income by the

population to allow a designation of low- to upper-income). The AA meets the legal requirements of the CRA and does not arbitrarily exclude LMI geographies. For additional details on the CTs and income designations, see the bank's public file.

Maricopa County is one of the fastest growing metropolitan areas of the nation, with a 2000 population of 3,072,149. It is the fourth most populous county in the United States, with 2006 population estimates of 3,792,675. More than half the state's population resides in Maricopa County. In May 2006, the Department of Housing and Urban Development (HUD) provided an estimated update for Maricopa County's median family income (MFI) at \$60,100.

The unemployment rate for the Phoenix-Mesa-Scottsdale MSA has been decreasing over the last 3 years, from 4.4 percent in 2004 to 4.1 percent in 2005 and 3.6 percent in 2006. According to the Business Journal Book of Lists 2006, the top 10 employers in the greater Phoenix area, aside from the local, state, and federal governments, include Wal-Mart Stores, Banner Health System, Wells Fargo and Co., Arizona State University, Honeywell Inc., Intel Corp., U.S. Airways, Bashas Inc., Albertsons Inc, and Safeway Inc.

During our evaluation of MBNA, we contacted a community organization to help determine the needs and opportunities in the AA. The contact was a financial intermediary that works with local community organizations, providing technical and management expertise, grants, loans, equity investments, and policy support to Community Development Corporations (CDCs). The contact stated that nonprofit organizations would benefit from additional bankers providing financial expertise on committees, and assistance with credit counseling on mortgage originations. Post purchase education by lenders is also needed to ensure that borrowers do not default on their loans and/or refinance inappropriately. Small business loans, especially targeted towards women and minorities, in addition to training, and technical assistance, were also identified as community development needs that could be supplied by more financial institutions.

There were also three other recent community contacts which we reviewed to develop a better understanding of the AA needs. These organizations echoed needs for banks and bankers to partner with organizations both financially, and by lending their financial expertise. They also identified the need to find more creative ways to bring a variety of funding sources together to leverage funds and limit individual bank risks. Financial support of micro-lending organizations which provide otherwise unbankable loans, and training very small businesses on how to make successful loan presentations was another expressed need. Projects that create permanent, living wage jobs are needed, as well as ways to help qualify LMI individuals for home loans. Frustration was expressed by one commenter on affordable housing that gets sold to investors and converted to market rate properties.

Competition for financial services is strong, with over 67 financial institutions dividing \$56 billion worth of deposits among them as of June 30, 2006. The top three banks (members of nation-wide organizations with over 120 offices each in the Phoenix-Mesa-Scottsdale MSA) hold over 65 percent of the deposits. MBNA holds just 2.5 percent of the area deposits. Because of MBNA's geographic dispersion of their nine offices across the county, they compete with banks of all sizes.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The bank's overall CRA performance is *Satisfactory*. This is supported by separate conclusions for both the lending test and the community development test, details of which follow.

Lending Test

The bank's performance under the lending test is rated *Outstanding*.

Loan-to-Deposit Ratio

MBNA's LTD is more than reasonable given the bank's size, financial condition, and credit needs of the AA. As of March 31, 2007, the bank's quarterly average LTD for the last 14 quarters was compared with six other competitor financial institutions operating within their AA. The results are summarized below.

Bank	Average Quarterly Loan-to-Deposit Ratio
MBNA Avg. LTD Ratio	94%
Average of 6 other banks in AA	96%
Highest bank in range	127%
Lowest bank in range	64%

Source: *Uniform Bank Performance Report*

There are no true comparables for MBNA in their AA. For purposes of comparison in the LTD ratio we selected six banks which MBNA considers competitors for its loans and deposits. This comparison excludes savings and loans, and credit card banks in the AA as being too dissimilar in product lines. Nonetheless, we did also select the bank in the AA which was most similar in size to MBNA, and with the highest LTD ratio in the group, even though it also has a different market niche (mortgage lending). The competitors used in the comparison above also include four extremely large banks with thousands of branches across the country and access to multiple market places, because they compete for some of the same types of loans and deposits. MBNA has the fewest number of branches compared to the other six competitors inside its own AA, which puts it at a competitive disadvantage. Even with all these competitive issues and different products, MBNA is very near to the average of this larger competitor group, and has significantly improved its own LTD ratio during the evaluation period since the last examination.

Lending in Assessment Area

We calculated the percentage of loans inside the bank's AA in our original sample of 20. With 85 percent of both the number and dollar amount of loans, MBNA's inside/outside ratio reflects that a substantial majority of loans are inside the bank's AA. This is depicted in the table on the following page.

Lending in Maricopa County										
	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Totals	17	85	3	15	100	5,243	85	908	15	100

Source: loan data is from our original sample of 20 loans from 2005 through first quarter 2007.

We replaced the three loans outside the bank's AA to arrive at a new sample of 20 loans. With this new sample, we analyzed the following tests for Borrower and Geographic Distribution.

Lending to Businesses of Different Sizes

Given the demographics of the AA, the borrower distribution reflects overall reasonable penetration to businesses of different sizes, as reflected in the following table.

Borrower Distribution of Loans to Businesses in Maricopa County				
Business Revenues (or Sales)	≤ \$1,000,000	> \$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	63%	5%	32%	100%
% of Bank Loans in AA by #	50%	35%	15%	100%
% of Bank Loans in AA by % \$	53%	30%	17%	100%

Source: Loan sample; Dunn & Bradstreet data. Sample unknown data represents three loans with no gross annual revenue information provided.

Performance for lending to businesses of different sizes meets the standard. Both the percentage of the number and dollar amount of loans, though lower than the demographic, are near the percentage of AA businesses with gross annual revenues of less than \$1 million.

Geographic Distribution of Loans

The geographic distribution of loans represents an excellent dispersion throughout the AA as reflected in the following table.

Geographic Distribution of Loans to Businesses in Maricopa County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Total	5%	10%	23%	35%	32%	25%	40%	35%

Source: Loan sample; Dunn & Bradstreet data.

Performance for lending in low- and moderate-income CTs exceeds the standard. The bank's geographic distribution of loans is double the demographic percentage of AA businesses in low-income CTs. This is especially noteworthy because there are limited opportunities (only 5 percent of businesses are in low-income CTs) for lending there. In moderate-income CTs, the geographic distribution of loans also significantly exceeds the demographic standard.

Responses to Complaints

We reviewed the bank's public file for complaints, and complaints reported to the OCC through the customer assistance hotline. There were no complaints relating to the bank's meeting of the community credit needs through the CRA.

Community Development Test

Overall, the bank's community development (CD) performance demonstrates adequate responsiveness to the CD needs of its AA through originating CD loans, offering CD services, and making qualified investments, considering the institutions capacity and the need and opportunities for CD in the bank's AA.

The bank does not have a formal assessment of the CD needs in its communities. However, we were able to determine that opportunities for CD lending, qualified investments, and services are available based upon an analysis of demographic information, the CRA public evaluations of other area institutions, and Community Contact information. The AA has 21 percent of the households identified as low-income, and 18 percent identified as moderate-income. Using the most recent Dunn and Bradstreet data, 63 percent of the businesses in the AA have revenues below \$1 million. Specific CD opportunities were also confirmed through a review of the public evaluations of other area banks and contacts with community organizations. The bank has elected Subchapter S tax treatment, which means some opportunities such as New Market Tax Credits are not usable options for the bank, but there are still many other CD opportunities that do not rely on tax credits. These ample needs and opportunities are already described in the Description of Maricopa County Assessment Area section of this report.

There are no financial or legal impediments impairing the bank's ability to perform under the CRA. However, the bank has grown substantially during the evaluation period, from \$358 million at the last examination to \$2 billion as of December 31, 2006. Much of this growth is due to the acquisition of various operating subsidiaries. The bank's CRA performance under the CD test is measured by responsiveness to CD needs in the context of its capacity. The following sections describe the bank's response by number, amount, and extent of CD activities, and the last section evaluates the bank's responsiveness.

Number and amount of community development loans

MBNA funded five CD loans totaling nearly \$10 million to four borrowers during the evaluation period. These borrowers met both the size and purpose tests to be qualified as CD loans. Many other loans did not meet the criteria.

- CD loans totaling nearly \$8 million were made to borrowers in Maricopa County that helped to meet economic development needs in the area by providing permanent job creation.
 - Over \$5 million was to businesses in moderate-income census tracts, creating 21 low-income jobs and 9 moderate-income jobs.
 - Nearly \$3 million was to a business in a low-income census tract, creating 15 low-income and 5 moderate-income jobs.
- One loan totaling nearly \$2 million was made to a borrower in the AA for a formal revitalization and stabilization project in a low-income blighted area.

Number and amount of qualified investments

MBNA only had \$220 thousand in qualified CD investments and donations in the AA during the evaluation period, and one of them was a prior period investment. Not all of the investments presented for consideration were qualified as CD activities. Those dollars that did qualify were divided among the following organizations:

- One new investment of \$30 thousand was to a law clinic providing services to LMI individuals, including assistance in combating homeowner and rental fraud, predatory lending, foreclosure, etc.
- The other new investment is \$18 thousand provided over the period to an organization that assists local CDCs with technical support and expertise.
- There was one prior period investment with an outstanding balance of \$25 thousand to a nonprofit which provides financing and access to technical assistance for the advancement of small businesses, low- to moderate-income housing, nonprofit organizations, and economic development.
- The rest of the qualifying investments are small donations and grants to 21 organizations totaling \$147 thousand.

Extent to which the bank provides community development services

Only four qualified CD services were identified during the evaluation period, and only 100 hours of CD services were tracked.

- Fifty hours of financial expertise per year were provided to an organization that provides first time homebuyer education and down payment assistance.
- Another fifty hours of financial expertise per year were provided to a national financial intermediary that helps create affordable housing for low income families and economic revitalization in distressed communities.
- An MBNA executive was just appointed to the Board of Directors of the Federal Home Loan Bank of San Francisco in 2007. He has taken a leadership role in affordable housing-related projects the FHLB sponsors in Arizona. No hours were tracked on this activity.
- A loan officer serves on the finance committee of a local church which sponsors at least two LMI targeted projects in the bank's AA. The officer provides budgeting, fund raising, and planning expertise to those projects. No hours were tracked on this activity.

We determined that many Meridian employee volunteer activities did not qualify as a CD service for a combination of reasons including the following: the type of service provided was not

related to the provision of financial services, the group assisted did not meet the definition of community development, services provided appeared to represent personal contributions of time and effort, and/or documentation did not clearly support how the organization or activity qualified as a community development service under the CRA.

The bank's nine branches are already detailed in the Description of Institution section of this report. One branch (Central) is located in a moderate-income CT, which has a positive impact on CRA by benefiting an LMI geography. That branch is also near some low-income CTs. There are also two of the middle-income CTs that are adjacent or near to moderate-income CTs (Avondale and Glendale).

The bank also offers a variety of alternative delivery systems to access bank services. The fact that these additional services are free provides increased access to the bank's financial services to LMI individuals. There are eight bank-owned no-cost ATMs. The bank also recently added the Instant Cash Network, providing valley-wide access at no-cost for ATM deposit and withdrawals through the Wells Fargo's ATM network. Other retail services available to LMI individuals at minimal or low-cost include value checking, and telephone voice response system banking (free).

Bank's responsiveness, through community development activities, to community development lending, investment, and services needs

MBNA's overall responsiveness to CD needs in the AA is adequate.

- CD lending demonstrates adequate responsiveness to needs in the AA.
- Qualified investments demonstrate poor responsiveness to needs in the AA.
- The level of community development services demonstrates poor responsiveness, given the bank's size and the opportunities available in the assessment area.
- Access to MBNA's banking services in LMI geographies is adequate considering the size of the AA and the limited number of branches.

The bank could be more responsive to the needs in its AA if it completed a needs assessment of the service area, developed a plan to address certain needs, and implemented the plan. The bank could also partner with more of the CD organizations that provide products and services that fit within the bank's business plan, such as non-profit business loan organizations and technical assistance providers. Alternatively, it could also help meet needs its business plan does not address (such as affordable housing) by partnering with CD organizations that provide affordable housing and related services in the AA. CD lending for affordable housing, if appropriately documented, can also be responsive to those needs.

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.