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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

May 12, 1997

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

National Bank of Alaska  
Charter Number 14651

P.O. Box 100600  
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**NOTE:** This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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# GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

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

# INSTITUTION'S RATING

This institution's CRA performance is rated **Outstanding**.

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

### **Lending Test**

- Lending levels reflect an excellent responsiveness to the credit needs of its assessment areas. The aggregate volume of residential mortgage, consumer, and small business loans is strong. A substantial majority of these loans are within its assessment areas. The geographic and borrower profile distribution of these loans reflects strong penetration throughout the assessment areas. Also, the bank's level of qualified community development loans places it in a leadership position. NBA also makes use of flexible lending practices in serving its community's credit needs.

### **Investment Test**

- The bank has a significant level of community development related investments that are responsive to the community's credit and economic development needs. NBA has taken a leadership position in providing support to community development organizations. Some of the investments are innovative and required a significant amount of time and effort to formulate.

### **Service Test**

- NBA's delivery systems are readily accessible to all portions of its assessment area, including low and moderate income geographies. Each branch office provides the same products and services and the branches tailor their business hours to accommodate the customers' needs. The bank has not closed any offices since our last CRA examination in September, 1994.

# LENDING, INVESTMENT AND SERVICE TEST TABLE

The following table indicates the performance level of the National Bank of Alaska with respect to the lending, investment, and service tests.

<b>PERFORMANCE LEVELS</b>	<b><u>National Bank of Alaska</u></b>		
	<b><u>PERFORMANCE TESTS</u></b>		
	Lending Test *	Investment Test	Service Test
Outstanding	X		X
High Satisfactory		X	
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

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

## DESCRIPTION OF INSTITUTION - PERFORMANCE CONTEXT

National Bank of Alaska (NBA) was established as a national charter in 1950. It is owned by the National Bancorp of Alaska, Inc., a bank holding company formed in 1982. NBA offers commercial banking and trust services and has six subsidiaries to facilitate mortgage, credit card, finance, leasing, and international banking related activities. NBA operates with 52 branches, a loan production office in Seattle, and five community agents. The community agent program was established as an attempt to better address the banking needs of its customers, including those residing in the more remote, rural communities that are difficult to reach through traditional means.

As of December 31, 1996, NBA's total assets were \$2.6 billion and its net loan portfolio \$1.4 billion. Contributing to this asset size were the acquisitions of three financial institutions between 1987 and 1989 (Alaska National Bank of the North, First Interstate Bank of Alaska, and Alliance Bank). NBA's earnings and capital levels are strong and there are no obvious financial impediments that would keep it from addressing CRA. However, like other banking institutions operating in the state of Alaska, a major obstacle to NBA in serving its customers is the state's geography. The large size of Alaska contributes to high transportation and communication expenses, particularly in the more remote, rural areas. Adding to this problem is the lack of infrastructure, fragmented population, and economic challenges that rural Alaska faces. This situation presents NBA with difficult challenges in its efforts to provide all of its customers with ready access to its banking services.

The management of NBA has chosen the entire state of Alaska as its community and within it, categorized two assessment areas, the Anchorage Metropolitan Statistical Area (MSA) and the Non-Metropolitan Statistical Areas (Non-MSA) which are the remaining geographies outside of Anchorage. This delineation meets the requirements of the regulation and does not arbitrarily exclude low or moderate income geographies (footnote 1). Refer to page 5, Table 1 for demographic data.

For comparative purposes, banks that are similarly situated to NBA are the First National Bank of Anchorage (FNBA) and Key Bank of Alaska. It should be noted however, that NBA has the largest asset base of the three, followed by FNBA and Key Bank of Alaska. Also, like Key Bank, NBA has a lending focus that encompasses Home Mortgage Disclosure Act (HMDA) loan products, small business and consumer loans. FNBA's primary lending focus is small business. These two banks will be referred to as NBA's "peers" throughout this document.

During our examination, we met or spoke with representatives of organizations serving the community. The information learned from these meetings confirm the above discussion that rural Alaska poses significant challenges to financial institutions. The information also confirms NBA's analysis of the more significant credit needs within their assessment areas to be affordable housing and loans to small businesses. Ancillary to these credit needs is the need for credit education, home-ownership counseling, and assistance in applying for business credit.

1 As defined in 12 CFR 25.12, a low income geography is one which the median family income is less than 50% of the area median income, moderate is 50% - 79% of the area median income, middle is 80% - 119% of the median income, and upper is 120% or more of the median family income. The area median income is defined as the median family income (MFI) for the MSA geography if the geography is located in an MSA. If located outside the MSA, the area median income is the statewide, non-metropolitan median family income. The 1990 U. S. Census Data is the basis for area median income when evaluating geographies. Current HUD income data is the basis for the area median income when analyzing the borrowers' income profile.

**Table 1 Demographic Characteristics of Assessment Areas**

Characteristic	MSA	Non-MSA	Combined MSA & Non-MSA
# Census Tracts/BNA's	56	134	190
% Low Income	5%	6%	6%
% Moderate Income	20%	15%	16%
% Middle Income	45%	45%	46%
% Upper Income	29%	16%	19%
% Not Available	2%	17%	13%
Population	226,338	323,705	550,043
1990 U.S. Census Median Family Income	\$50,108	\$44,045	-
1996 HUD (updated) Median Family Income	\$57,100	\$48,500	-
Median Housing Value	\$98,950	\$73,650	-
Total Housing Units	94,153	138,455	232,608
Total Households	83,043	106,657	189,700

## DEFINITIONS

Some definitions of common terms used throughout this document are as follows:

Community Development - means that the primary purpose of the loan, investment or service is for: affordable housing (including multifamily rental housing) for low or moderate income individuals; community services targeted to low or moderate individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of 13 CFR 121.802 (a)(2) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low or moderate income geographies.

Small Business or Small Farm Loan - a loan included in "loans to small businesses" as defined in the instructions for preparation of the Consolidated Report of Condition and Income. Briefly, these include Commercial and Industrial loans that are less than or equal to \$1 million.

Geography - a census tract or block numbering area delineated by the United States Bureau of the Census in the most recent decennial census (1990).

Consumer Loan - loan to one or more individuals for household, family, or other personal expenditures. It includes loans for motor vehicles, credit cards, home equity loans, & other secured and unsecured loans. It does not include a home mortgage, small business, or small farm loan.

## OVERALL CONCLUSIONS WITH PERFORMANCE TESTS

### Lending test

In assessing lending performance, we focused on the bank's lending activity; assessment area concentration; geographic distribution of loans; borrower profile; responsiveness to credit needs of economically disadvantaged geographies, low income persons, or small businesses; community development lending; and product innovation/flexibility. (Note: Under the revised CRA, only one year of loan data was required from the bank. NBA provided additional data on their 1995 HMDA and Community Development loan activities which was considered in the analysis to foster a more complete evaluation of its overall performance under CRA since their last evaluation. For small business and consumer loans, the assessment period was 1996).

### **Overall Conclusions**

The bank demonstrates an excellent responsiveness to the credit needs within its assessment areas.

- The overall high volume of lending for residential mortgage, consumer, and small business lending.
- Virtually all of these loans are within the assessment areas.
- The geographic and borrower profile distribution of these loans reflects strong penetration throughout the assessment areas. And, the bank responds well to economically disadvantaged persons and small businesses.
- Community development lending levels are strong and indicate leadership characteristics. Also, NBA uses flexible lending practices in serving the credit needs of its low and moderate income communities.

### Lending Activity

NBA is an active lender. Its overall high loan volume is reflected in its loan growth, peer bank comparisons, and loan-to-deposit ratio. NBA realized a 9% growth rate over the past two years. The bank also registered a strong loan-to-deposit ratio, which reflects total loans as a percentage of total deposits. As of December 31, 1996 this ratio was 77% (8 quarter average was 76%) and would be significantly higher with loan sales added back in. In 1995, Home Mortgage Disclosure Act originations totaled 3,188 in its assessment areas for \$259 million. This performance placed NBA in a leadership position among banking institutions within the Anchorage MSA for this loan category. HMDA loan production grew another 24% in 1996.

Consumer and small business loans also represent significant aspects of the bank's lending. Over 27 thousand consumer loans were originated in 1996 totaling \$288 million. In small business and small farm lending, NBA booked 2,230 loans for \$181 million. Due to the nominal amount of NBA's small farm lending, we have combined this with its small business loans for analytical purposes throughout this document.

NBA has been the leader by far in dollar market share of outstanding loans among financial institutions within the state of Alaska with more than 37% as of June, 1996. Its peer institutions (FNBA and Key Bank of Alaska) held 18% and 15% respectively. NBA was also the second best performer (behind the Alaska USA Federal Credit Union) among financial institutions with the dollar market share of consumer loans for the State of Alaska. This information is derived from the Consolidated Reports of Condition and Income - June 1996 data.

### Assessment Area Concentration



Virtually all of NBA's loans are within its assessment areas. Specifically, 97% of the number and 98% of the dollar volume of small business, residential mortgages, and consumer loans granted in 1996 were made to borrowers residing within the bank's two assessment areas. This conclusion is germane to CRA loans (HMDA, Small Business and Consumer) individually or in aggregate as reflected in the following tables.

**Table 2 Assessment Area Concentration by Loan Count - 1996**

<b>Area</b>	<b>HMDA Loans</b>	<b>Small Business Loans</b>	<b>Consumer Loans</b>	<b>Total Loans</b>
<b>MSA</b>	1,283	681	8,951	10,915
<b>MSA %</b>	<b>32%</b>	<b>30%</b>	<b>33%</b>	<b>33%</b>
<b>Non-MSA</b>	2,680	1,549	17,180	21,409
<b>Non-MSA %</b>	<b>67%</b>	<b>68%</b>	<b>63%</b>	<b>64%</b>
<b>Combined %</b>	<b>99%</b>	<b>98%</b>	<b>96%</b>	<b>97%</b>
<b>Total</b>	3,969	2,273	27,129	33,371

**Table 3 Assessment Area Concentration by Loan Dollars - 1996 (000's)**

<b>Area</b>	<b>HMDA Loans</b>	<b>Small Business Loans</b>	<b>Consumer Loans</b>	<b>Total Loans</b>
<b>MSA</b>	121,562	58,140	92,425	272,127
<b>MSA %</b>	<b>37%</b>	<b>31%</b>	<b>35%</b>	<b>35%</b>
<b>Non-MSA</b>	207,548	122,977	163,515	494,040
<b>Non-MSA %</b>	<b>63%</b>	<b>66%</b>	<b>61%</b>	<b>63%</b>
<b>Combined %</b>	<b>99%</b>	<b>97%</b>	<b>96%</b>	<b>98%</b>
<b>Total</b>	329,220	186,809	265,560	781,589

Geographic Distribution

The overall geographic distribution of loans reflects strong penetration throughout the assessment areas of low, moderate, middle, and upper income geographies (refer to Table 4). And, the distribution of small business, and consumer loans is excellent. The distribution of HMDA related loans within the assessment area is lower at the low and moderate income geographies. This is primarily the result of difficulties associated with facilitating lending opportunities to the rural communities caused by the lack of infrastructure, transportation problems, and overall higher costs. In 1995, a 5% down payment mortgage program led to a slightly higher HMDA lending distribution to low and moderate income geographies.

**Table 4 1996 NBA Loan Originations - Geographic Distribution of Loans by Census Tract Income Level (Combined MSA & Non-MSA Assessment Areas)**

Census Tract Characteristics By #		# Penetration % HMDA	# Penetration % Small Business	# Penetration % Consumer	# Penetration % Total
Low Income	6%	3%	9%	11%	10%
Moderate Income	16%	8%	16%	18%	17%
Middle Income	46%	58%	51%	47%	48%
Upper	19%	31%	24%	24%	25%
NA	13%	-	-	-	-

#### Borrower Profile

Overall, the distribution of NBA's HMDA related loans, small business and consumer loans to borrowers of different income levels is strong. As depicted in Table 5, the overall dispersion of HMDA and consumer loans to applicants of various incomes is reasonably proportionate to the number of families of such income levels.

The level of HMDA loans in NBA's combined assessment areas to persons of low or moderate incomes is lower than the percentage of low or moderate income families of that assessment area (39%, per U.S. Census Data). Discussions with bank management indicate that this is largely a reflection of the difficulties associated with credit qualifications. It should be noted that within the MSA assessment area in 1995, NBA was the leader among banking institutions and third among all lenders in market share of HMDA related loans to low and moderate income applicants. Data is not available the Non-MSA assessment area, or for 1996.

The distribution of consumer loans to borrowers of different income levels is excellent. As indicated in Table 5, each family income level category was provided with an excellent dispersion of consumer loans.

The distribution of small business loans to business customers of different sizes is also excellent. In the combined assessment areas, 78% of the number and 59% of the dollar volume of its small business loans went to companies with

less than \$1 million in gross annual revenues. This compares favorably to the respective area demographics as 73% of the small businesses have gross annual revenues below \$1 million. Furthermore, 79% of such loans were under \$100 thousand in size. In summary, NBA is serving the needs of its small business customers.

**Table 5 Borrower Profile - HMDA & Consumer Loans by Count in 1996  
(Combined MSA/Non-MSA)**

<b>Applicant Income Level</b>	<b>HMDA</b>	<b>HMDA %</b>	<b>Consumer</b>	<b>Consumer %</b>	<b>Total Percentage</b>	<b>* Family Income Levels</b>
<b>Low</b>	203	5%	5,493	21%	19%	21%
<b>Moderate</b>	585	15%	5,489	21%	20%	18%
<b>Middle</b>	1,155	29%	5,572	21%	22%	22%
<b>Upper</b>	1,973	50%	5,495	21%	25%	39%
<b>Not Available</b>	47	1%	4,082	16%	14%	-
<b>Total</b>	3,963	100%	26,131	100%	100%	-

\* Note: Represents the percentage of families with income levels in each of the income categories.

Responsiveness to Credit Needs of Highly Disadvantaged Geographies Low Income Persons, and Small Businesses

NBA exhibits a good record of serving the credit needs of the most highly economically disadvantaged geographies, low income persons, and/or small businesses. HMDA loans to low income geographies were lower than its assessment area demographics for that income level. Credit qualifications will likely influence such results. In the MSA for 1995, NBA had the highest market share of HMDA loan originations to low income geographies among all lenders (latest data available). NBA's distribution of small business and consumer loans to low income geographies is excellent as they were proportionately higher than its corresponding demographic composition for such income levels. It is also worthy to note that during the evaluation period, NBA extended credit to all of its low income geographies within its assessment areas.

NBA's responsiveness to low income persons is also good. For HMDA loan originations to low income applicants in the MSA, NBA booked the most of all banking institutions and second among all lenders in 1995 (latest data available) both in numbers and dollars of loans. Its lending to small businesses is excellent. As previously noted, in 1996, 78% of such loans (by number) went to businesses with gross annual revenues of \$1 million or less. These results are excellent given that 73% of the small businesses in the bank's assessment areas have annual revenues of less than \$1 million.

### Community Development Lending Activities

NBA has demonstrated leadership results in the level and nature of its community development lending. The bank has quite a few opportunities for community development lending due to the unique nature of the state, its political infrastructure and particularly, the opportunities which arise to provide loans to various Native organizations which provide collective services to communities and individuals. As Table 6 reflects, 26% of the number/dollars of qualified community development transactions are located in the Anchorage MSA, and 74% of both number and dollars are located in the Non-MSA.

The bank is very responsive to different community development opportunities. NBA has extended loans for a variety of purposes and provided close to 400 affordable housing units in multi-family projects to very low income individuals, both in the MSA and Non-MSA areas. Additionally, NBA has identified numerous opportunities to assist in the funding of projects which provide basic service and infrastructure needs for low and moderate persons and geographies. Many of those services include basic health and human services, which are needed outside the MSA and provided by various non-profit organizations, rather than through local governments. In a limited number of situations, loans to some for-profit organizations were included as community development, based on an analysis of the particular facts and circumstances of the community, the jobs created and sustained, and the services provided by the organization.

It should be noted that the bank addresses many needs via community development lending through transactions that are officially reported as small business loans. However, many of these loans have the same characteristics as the community development transactions which exceed \$1 million. In 1995, 16 loans under \$1 million totaling \$4.2 million met the regulation's community development definitions. As small business loan reporting was not done for that period, these loans can be considered in this analysis. These loans were made to non-profit entities to support low moderate income persons either through housing, services, or by stabilizing or revitalizing a low/moderate income geography.

NBA is the leader among banks in the state in qualified community development lending and shows a strong commitment through its resources in personnel and actual loans in the area. The bank has a strong history of commitment to the State, and particularly its rural communities. This is apparent in the number of transactions, along with their variety of means in developing services and infrastructure to low/moderate income persons and geographies.

Table 6 below summarizes NBA's community development loans of \$1 million and higher for the evaluation period 1995 and 1996 within its two assessment areas.

**Table 6 Community Development Loans - 1995 & 1996**

Year	MSA Loans		Non-MSA Loans		Total	
	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)
1996	3	7,020	7	11,471	10	18,491
1995	2	11,065	7	40,608	9	51,673
<b>Total</b>	5	18,085	14	52,079	19	70,164

The following describes the Community Development transactions that are listed in the preceding table. The dollar amounts are in thousands:

1996 MSA

\$2,600	Loan for a 72-unit single room occupancy project which is targeted to persons with income below 33% of the MSA Median Family Income (MFI).
1,800	Loan for a 48-unit senior development targeted for persons with income below 60% of the MFI, with some units targeted for persons below 50% of the MFI.
2,620	Loan for a 111-unit housing project with Alaska Housing Finance Corporation participation. Rent levels meet the affordable housing guidelines and are for persons with incomes below 80% of the MFI.

1996 Non-MSA

\$1,250	Loan for a 52-unit HUD renovation project in connection with the Low Income Housing Tax Credit (LIHTC) program.
1,883	Loan for a 24-unit Fairbanks Neighborhood Housing Service low income housing project.
1,000	Loan for a non-profit project which provides health and human services to the regional area in which 58% of the population is low and moderate income persons. Proceeds were used to purchase and renovate the building to house the programs.
2,500	Loan for a non-profit which provides health and human services to a moderate income geography. Proceeds were used for the building to house the programs.
1,000	Loan to a village corporation which was used to fund development of water/sanitation facilities in a moderate income community, where 50% of the housing has limited plumbing facilities. The funds were also used for road improvements. The development helped provide stabilization to the area.
2,500	Loan to finance a tank farm in the regional area of which 55% are low or moderate income families. The community is very isolated and accessible by barge for three months of the year. This project impacts the heating fuel availability and price in the area and thus provides both service and stabilization to the community.
1,338	Loan to finance a fuel purchase (storage) for use in the area described in the preceding transaction. This acts as a service and provides stabilization to the area.

1995 MSA

\$8,737	Loan for construction of a primary health care center for Alaska Natives in a community which is populated primarily by low and moderate income families.
2,328	Loan for construction of an Alaska Native Alcohol Recovery Center which is used primarily by low or moderate income persons.

1995 Non-MSA

4,500	Loan proceeds were used to build a housing complex for health workers to deliver health services in a remote, low/moderate income community. Without this housing for workers, health services would not be available.
1,700	Loan for a 34-unit senior housing project which targeted persons with income below 60% of the MFI.
\$28,000	Loan used to purchase timber rights from a rural village corporation. Funds were paid to the village trust with 60% of trust proceeds going directly to 900 village beneficiaries. The sales contract guarantees 200 logging jobs over six years. These jobs represent the major form of employment in the area, which if not sustained would have a severe adverse impact on the village. While the geography is middle income (83% of the MFI), the very high cost of living (equal to the Anchorage MSA cost of living) compared with the level of income places this community in a needful category. This is also confirmed with the fact that HUD has subsidized 75% of the housing stock in this area. This loan stabilized this community's jobs and income levels.
2,900	Loan for a 40-unit low income senior extensive care facility.
1,000	Funds were used to support FHA underwriting by the housing authority. The housing authority provides services primarily benefiting low and moderate income families.
1,308	Loan to purchase a generator that provides electricity to a moderate income geography. The loan provides stabilization to the area.
1,200	Loan used by the village corp to provide inventory for stores. This lends to jobs and stability to this regional area where 53 % of the population is low/moderate income.

Flexible Lending Practices

NBA uses flexible lending practices to help address the credit needs of low and moderate income persons and/or geographies, both inside and outside the Anchorage MSA. These flexible lending programs resulted in 942 loans totaling \$87 million during the evaluation period and are listed as follows:

- Affordable Home ownership Guaranteed Loan Program - Designed to promote Home ownership opportunities for low or moderate income borrowers by providing flexible terms including below market interest rates, low down payment requirements, and higher qualifying ratios. Program was terminated this year, however 556 loans were booked for \$55,251 thousand during the evaluation period.
- Alaska Housing Finance Corporation (AHFC), Tax Exempt Bond program - Offers flexible terms including below market rates, low down payment requirements, and closing cost assistance for first time home buyers. Limitations apply to income, loan amount, and acquisition cost. There were 258 loans booked for \$24,108 thousand during 1996. Data was unavailable for 1995.
- Cook Inlet AHFC Affordable Housing Enhanced Loan Program (AHELP) - Provides assistance to low income applicants for home financing in the Cook Inlet Region area. Flexible aspects include assistance with closing

costs and down payments, higher qualifying ratios, and home ownership counseling. There were 38 loans extended during the evaluation period totaling \$2,506 thousand.

- United States Department of Agriculture, Rural Development Guaranteed Program - Designed for low/moderate income borrowers to purchase housing in certain rural communities of Alaska. Flexible terms include relaxed income requirements, higher loan-to-value ratios, and higher debt-to-income ratios. During the evaluation period, 48 loans were booked for \$3,982 thousand.
- Neighborhood Housing Services of America - The Fairbanks, Alaska segment of this program targets first time home buyers in the low income geographies. Flexible aspects of the program include down payment assistance, and relaxation of standards for credit history. Ten loans totaling \$727 thousand were made during the evaluation period to such targeted borrowers.
- AHFC, Home Owners Assistance Fund - Mortgage program with limitations on income, assets, purchase price and loan amount. Assistance is also provided in the form of an interest rate subsidy and/or a monthly payment subsidy. During the evaluation period, there has only been one loan made for \$59 thousand.
- Real Life Loan Program - An NBA initiated program designed to meet the basic credit needs of low income borrowers. The program provides flexible terms regarding lower payments without putting the borrower at personal financial risk. There were 31 loans extended through the program for \$173 thousand.

### **Investment test**

To assess the bank's performance under the Investment test, we reviewed its investment and grant activity, its responsiveness to credit and qualified community development needs, and its initiatives with community development. We supplemented this with input provided from community organization representatives.

### **Conclusions**

- The bank made a significant volume of qualified community development related investments during the evaluation period.
- Responsiveness to credit and community development needs of the community is excellent.
- NBA made significant use of innovative and/or complex investments to support qualified community development activities.

### **Comments**

NBA originated \$6,146 thousand in qualified investments for the two year evaluation period of 1995 to 1996. We reviewed the supporting documentation for these investments/grants.

The bank's purchase of Low Income Housing Tax Credits over the two year evaluation period approximates 45% of the total Low Income Housing Tax Credits available in the state for the evaluation period. NBA did the first transaction of this type in the state in 1992. Prior to that, the state did not use its allocation of available tax credits. NBA is the number one participant in this investment vehicle in the state and does a significant amount of work and document preparation to facilitate their investment in Low Income Housing Tax Credit deals. The bank's financial staff developed the expertise to structure these deals for developers and has also assisted some of the village housing authorities. NBA

will generally extend construction loans on these transactions. Accordingly, the bank's efforts in these areas are considered innovative, as well as complex.

Within the level of qualified investments, \$233 thousand in donations were identified by management as meeting one of the four definitions of community development. Community development donations represent only a small portion of NBA's overall contribution program. Their total donations for the evaluation period approximated \$3 million. Of these, donations to education initiatives were approximately 30% of the total, health and human Services 23%, economic development 16%, and cultural/arts/sports accounted for the remaining 31%.



**Table 7 Investment Activities 1995 and 1996 \***

<b>Investment Type</b>	<b>MSA</b>	<b>Non-MSA</b>	<b>Total</b>
<b>Low Income Housing Tax Credits/Equities</b>	0	1,703	1,703
<b>Donations</b>	44	11	55
<i>Sub-total 1995</i>	<i>44</i>	<i>1,714</i>	<i>1,758</i>
<b>Low Income Housing Tax Credits/Equities</b>	3,762	448	4,210
<b>Donations</b>	61	117	178
<i>Sub-total 1996</i>	<i>3,823</i>	<i>565</i>	<i>4,388</i>
<b>Low Income Housing Tax Credits/Equities</b>	3,762	2,151	5,913
<b>Donations</b>	105	128	233
<b>Grand Totals (Combined MSA &amp; Non-MSA)</b>	3,867	2,279	6,146

\* *Note* - All of the investments noted above benefit the bank's two assessment areas. In the case of the low income housing tax credits, the transactions are tied to specific housing projects which can be identified by census tract or BNA.

In addition to the above 1995 and 1996 production in investments and grants, NBA made investments in qualified community development programs through LIHTC prior to the evaluation period. As of May, 1997, the outstanding of such investments totaled \$5,507 thousand (\$5,413 thousand in the MSA and \$94 thousand in the Non-MSA). These represent a continuing investment in qualified community development investments.

## **Service test**

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

### **Conclusions**

- The bank's delivery systems are readily accessible to all portions of its assessment areas.
- The bank's opening of two branches during the evaluation period has not adversely affected the accessibility of its delivery systems, particularly in low and moderate income geographies and/or to low and moderate income individuals.
- Services are tailored to the convenience and needs of the assessment areas, particularly low and moderate income geographies and/or individuals.
- NBA is a leader in providing qualified community development services.

### **Retail Bank Services**

The bank's programs are readily accessible to all parties. The state has unique barriers which relate to the great expanse of territory, small populated communities, and limited transportation alternatives. NBA has been successful in providing credit services which have reached all low/moderate income geographies in the state. The various delivery systems such as Loan by Phone have proven successful in allowing access to bank services from any location in the state. These systems help ensure that bank customers have reasonable means to access the bank's depository and credit services.

NBA has a total of 52 branches located throughout the state. The distribution of these branches among geographies of different income levels is strong and approximates the percentages of the various geographies, with slightly higher percentages in the low to middle income areas. The branches are widely disbursed and 71% are located in the Non-MSA portion of the state.

NBA offers reasonable business hours which are occasionally tailored to specific community needs. In addition, its product offerings are broad in scope to accommodate the needs of its retail and commercial customers. All of such services are made available at any of the NBA branches. Additional details can be found in the bank's CRA Public File.

Since our last examination, NBA has not closed any branches. Two full service branches have opened in middle income geographies; Ketchikan and Juneau. These adjustments have not adversely impacted access by low/moderate income persons or geographies.

NBA's alternative delivery systems include proprietary and non-proprietary ATMs, Bank by Mail, Direct Deposit, Telephone Tellers and Loan by Phone. The bank also developed a large dealer network to provide access to credit as consumers purchase various products. Low cost or free government check cashing, bill paying services, Yupik language loan applications, and dealer loan programs are also available.

## **Community Development Services**

NBA offers a wide variety of community development services which are focused on a large number of people and organizations within its assessment areas. Many of these services are collaborative with community and government organizations and reflect a willingness to take innovative steps to reach smaller communities in new ways. These initiatives reflect a leadership role that NBA's takes in addressing financial needs of its communities. The bank provides services which focus on the different types and communities in the state, such as the Community Agent program for small rural, low/moderate income communities, and the Homebuyers Club in Anchorage. The Business Cache newsletter provides information pertaining to rural business issues unique to the state. Several of the programs have proven helpful in increasing affordable housing options to the community through participation in grant programs and education/counseling programs to potential home buyers. Overall, the bank is a leader in providing community development services. A few of these are listed below.

**Community Agent Program** - Five community agents are trained and compensated by NBA. They are made available to various remote villages to ensure better access to NBA banking services as no financial institutions are readily available in these areas. These villages have very small populations between 300 to 700 persons, with other villages also served in the surrounding area. Income levels of the communities range from 29% to 67% of the MFI levels. Families in the communities with existing relationships with National Bank of Alaska, range from 32% to 70% of the total families in each community. The agents are trained to offer banking/financial assistance to the immediate and surrounding communities, assist customers in opening accounts, complete loan forms, evaluate collateral, provide financial education, and act as a community liaison for the bank.

**Affordable Housing Grant Programs** - Through its membership with the Federal Home Loan Bank (FHLB), NBA offers several programs which provide grants to support affordable home development in the community. NBA participated with non-profits and provided professional help in the application process. It participated in five programs during 1995-1996, which included a Single Room Occupancy project (targeted to persons with less than 33% MFI); an emergency youth shelter; an assisted living facility for low income elderly; and a home buyer grant program. Additionally, the bank assisted a Native association in the FHLB application for a grant to support housing for persons with income less than 60% MFI.

**Financial Education** - The bank developed an educational cadre of employees, as well as a series of financial education materials appropriate for various audiences and subjects. The subjects range from basic banking workshops for school-age children to Small Business workshops to basic home buyer programs. Classes are provided in English and Spanish. In the evaluation period, the bank held over 200 sessions which have reached several thousand participants. NBA also collaborated with several non-profit entities to establish a Home buyer Club to provide long-term pre and post-purchase counseling.

**TNHA Partnership** - The bank and the Tagiugmiullu Nunamiullu Housing Authority piloted a program to more effectively meet housing needs on the North Slope by training local people through this local organization. These individuals assist persons in the area to obtain financing for housing. This program is being submitted to the state housing authority as a model for the Alaska Housing Authority and all other regional housing authorities.

**Women\$fund** - The bank contributed \$10 thousand to this micro-loan fund which is targeted to assist women needing small business related technical and financial assistance. Bank officers participate on the loan committee.

**Tinaa' Fund** - NBA provided a \$10 thousand line to fund micro-loans through the non-profit Tinaa' Corporation to tribal members who cannot access capital for small business through other sources. NBA also provides technical assistance in business planning and development.

**Arctic Development Council (ADC) Revolving Loan Program** - NBA entered into a partnership with ADC to develop businesses to stabilize the North Slope Borough, by creating employment in the borough. The bank designed the small business lending program and a bank loan officer sits on the loan committee.

**Habitat for Humanity** - NBA provides loan servicing for interest-free habitat loans.

**Business Cache** - NBA publishes a quarterly newsletter with a focus on rural small business. A recent edition was focused on housing issues in the rural communities. The information is educational, and focused on facilitating an understanding of finance, including very specific information to assist individuals in applying for credit.

**Money Minutes** - NBA sponsors a series of radio spots in six low/moderate income communities which deal with credit, checking/savings, budgeting, rates, etc.

**Other Community Development Services** - NBA officers and employees participate as board members and financial advisors on numerous non-profit, tribal and government organizations which serve low and moderate income housing needs, economic revitalization, and development through promoting credit availability and affordable housing. They include organizations such as Anchorage Neighborhood Housing Service, Anchorage Housing Initiative, Consumer Credit Counseling, Small Business Development Center, Women\$Fund Loan Committee, Fairbanks Neighborhood Housing Service, Alaska Housing Development Corporation, Ketchikan Housing, Inc., Alaska Affordable Housing Partnership, Alaska Village Initiatives, Alaska Community Development Corporation, the Federal Home Loan Bank's Affordable Housing Advisory Council, and many others.

**Record of Compliance with Antidiscrimination Laws including the Equal Credit Opportunity Act, the Fair Housing Act, and the Home Mortgage Disclosure Act**

The results of our Fair Lending examination revealed no violations of Antidiscrimination laws and regulations. Based on our home improvement file sample, we determined that bank personnel are consistent in applying the bank's underwriting guidelines to all applicants, irrespective of race or national origin. We also found that NBA has adequate policies, procedures and training programs to help ensure fair treatment for all loan applicants.

## METROPOLITAN STATISTICAL AREAS

### CONCLUSIONS ON PERFORMANCE TESTS IN THE ANCHORAGE MSA :

The Anchorage assessment area includes all geographies within the Metropolitan Statistical Area (MSA). This is the only MSA in the state of Alaska. Following are comments regarding NBA's performance in this assessment area. *Note:* basic demographic data can be found on page 5.

### Lending test

#### Conclusion

The bank's lending in the Anchorage MSA reflects an excellent response to community credit needs. This conclusion is based on the lending activity, including its geographic distribution, borrower profile, community development lending, and innovative/flexible practices.

#### Comments

- Loan volume generated during the evaluation period is excellent. The combination of HMDA, small business, and consumer related loans in this assessment area is high (refer to Tables 2 & 3).
- The geographic distribution of combined loan products (by number) shows strong penetration among the various income levels. HMDA activity was not comparably dispersed among low and moderate income geographies when compared to respective area income demographics. Discussions with bank management indicate that this is largely attributable to the difficulties with borrowers meeting minimum income qualifications. Also, in 1995, NBA was the lead banking institution in HMDA related lending to low/moderate income geographies (latest data available). The dispersion of small business and consumer loans for the same geographies is excellent. Refer to Table 8 below for additional details.

**Table 8 Geographic Distribution by Number of Loans - MSA Assessment Area 1996**

Census Tract Characteristics By #		Penetration % HMDA	Penetration % Small Business	Penetration % Consumer	Penetration % Total
Low Income	5%	3%	4%	5%	5%
Moderate Income	20%	11%	23%	19%	19%
Middle Income	45%	47%	47%	44 %	44%
Upper Income	29%	39%	26%	31%	32%
NA	1%	-	-	-	-

- The overall distribution of NBA's combined loan products by borrower characteristics is strong. Consumer lending was well dispersed among applicants of various income levels when compared to the proportion of families with such respective incomes. HMDA related loans to low and moderate income borrowers were not comparable to such respective income demographics. Again, bank management attributes this to the lack of income qualifications. NBA was the lead bank in dollar market share of HMDA related loans to low/moderate income applicants in this assessment area in 1995. Regarding small business lending, 63% of such loans went to businesses with less than \$1 million in gross annual revenues. This performance is strong as 73% of the businesses in this assessment area have less than \$1 million in gross annual sales. In addition, 78% of the number of small business loans were under \$100 thousand in size. Refer to Table 9 below for further details.

**Table 9 Borrower Profile - HMDA & Consumer Loans by Count in 1996 - MSA)**

<b>Applicant Income Level</b>	<b>HMDA Loans</b>	<b>HMDA %</b>	<b>Consumer Loans</b>	<b>Consumer %</b>	<b>Total Loans</b>	<b>Total %</b>
<b>Low</b>	76	6%	2,108	24%	2,184	22%
<b>Moderate</b>	239	19%	2,001	22%	2,240	22%
<b>Middle</b>	377	29%	1,818	20%	2,195	21%
<b>Upper</b>	573	45%	1,494	17%	2,067	20%
<b>Not Avail.</b>	18	1%	1,530	17%	1,548	15%
<b>Total</b>	1,283	100%	8,951	100%	10,234	100%

- The level and nature of NBA's community development lending places them in a leadership position. Refer to pages 10 to 12 for additional details.
- NBA makes use of flexible lending practices to help serve the credit needs of its assessment area. Refer to page 13 for details.

**Investment Test**

- The bank's performance in this area is strong. Refer to pages 14 through 15 for details.

**Service Test**

- The bank's performance in this area is very good. Refer to pages 16 through 18 for details.

## NON-METROPOLITAN STATISTICAL AREAS

### CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE NON-METROPOLITAN ASSESSMENT AREAS:

The bank's assessment area outside of the Anchorage MSA includes all other geographies remaining in the state of Alaska (Non-MSA). We evaluated the performance in this area which is summarized below.

#### **Lending test**

##### **Conclusion**

The bank's lending in the Non-MSA reflects an excellent response to community credit needs. This conclusion is based on the level of lending, as well as, its geographic distribution, borrower characteristics, community development lending, and product innovation.

##### **Comments**

- Loan volume generated during the evaluation period is excellent. The combination of HMDA, small business, and consumer related loans in this assessment area is high (refer to Tables 2 & 3 for details).
- The geographic distribution of combined loan products (by number) shows strong penetration among the various income levels (refer to Table 10 for details). HMDA related loans are not comparably dispersed among low and moderate income geographies when compared to respective area income demographics. Discussions with management indicate that this is largely attributable to the difficulties associated with lending in the rural communities (refer to performance context for further detail), as well as, borrower income qualifications.
- The overall distribution of NBA's combined loan products by borrower characteristics is strong. Consumer lending was well dispersed among applicants of various income levels when compared to the proportion of families with such respective income levels. HMDA loans are not comparable to such demographics for the low income category. Regarding small business lending, 83% of such loans went to businesses with less than \$1 million in gross annual revenues. This performance is strong as 73% of the businesses in this assessment area have less than \$1 million in gross annual sales. In addition, 80% of the number of small business loans were under \$100 thousand in size. Refer to Table 11 for details.
- The level and nature of NBA's community development lending places them in a leadership position. Refer to pages 10 to 12 for additional details.
- NBA makes use of flexible lending practices to help serve the credit needs of its assessment area. Refer to page 13 for details.



**Table 10 - 1996 Loan Originations, Geographic Distribution by Number of Loans, Non-MSA Assessment Area**

Census Tract Characteristics By #		Penetration % HMDA	Penetration % Small Business	Penetration % Consumer	Penetration % Total
Low Income	6 %	3%	11%	14%	12%
Moderate Income	15%	6%	13%	17%	15%
Middle Income	46%	62%	53%	48%	50%
Upper Income	16%	28%	23%	21%	22%
NA	17%	1%	-	-	1%

**Table 11 Borrower Profile - HMDA & Consumer Loans by Count in 1996 - Non-MSA**

Applicant Income Level	HMDA Loans	HMDA %	Consumer Loans	Consumer %	Total Loans	Total %
Low	127	5%	3,385	20%	3,512	18%
Moderate	346	13%	3,488	20%	3,834	19%
Middle	778	29%	3,754	22%	4,532	23%
Upper	1,400	52%	4,001	23%	5,401	27%
Not Avail.	29	29%	2,552	15%	2,581	13%
<b>Total</b>	<b>2,680</b>	<b>100%</b>	<b>17,180</b>	<b>100%</b>	<b>19,860</b>	<b>100%</b>

**Investment Test**

- The bank's performance in this area is strong. Refer to pages 14 through 15 for details.

**Service Test**

- The bank's performance in this area is very good. Refer to pages 16 through 18 for details.

## **SCOPE OF EXAMINATION**

The scope of our examination followed the Interagency CRA Examination Procedures for Large Retail Institutions. NBA management elected to be examined under the revised performance tests contained in the CRA final rule. These tests included the Lending, Investment, and Service tests. The bank provided sufficient information for small business loans and Consumer loans for 1996. The bank also provided sufficient information for HMDA loans originated in 1995.

Our evaluation period for CRA performance included 1995 and 1996 for the Investment, Service, and portions of the Lending test (HMDA related loans). The evaluation period for small business loans and consumer loans was 1996.

To understand the performance context for NBA, we assessed the bank's previous CRA performance as well as the performance of similar institutions using public data (e.g. Performance Evaluations, Uniform Bank Performance Report). We also talked with representatives of two community groups to better understand the community. These included the local agency for Housing and Urban Development and the Small Business Development Center. In addition, we reviewed demographic information available for the bank's assessment areas.

Our review of CRA covered the bank's performance in each of their two assessment areas. We did not visit areas other than the Anchorage MSA, but our analysis of Lending, Investments, and Service performance included each assessment area. We listed the bank's lending performance by assessment area when it was meaningful, and when data was available to do so. Our contacts with community organizations (noted above) helped provide us with information on credit and community development needs within the State.