



Public Disclosure

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Community Reinvestment Act Performance Evaluation

**National Bank of Arizona
Charter Number: 21383**

**3101 North Central Avenue
Phoenix, Arizona 85012**

Office of the Comptroller of the Currency

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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 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 CRA performance of **National Bank of Arizona** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **May 3, 1999**. 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 the visits to some, but not necessarily all of the institution'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.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. 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 by another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Block Numbering Area (BNA) - Statistical subdivisions of counties in nonmetropolitan areas in which census tracts have not been established. BNAs have been established by the United States Census Bureau in conjunction with state agencies.

Census Tract (CT) - Small, locally defined statistical areas within metropolitan statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogeneous populations. A CT has defined boundaries per decennial census and an average population of 4,000.

Community Development (CD) - Affordable 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 safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Full-Scope Review - Performance under the Lending, Investment and Service Tests is analyzed considering fully understood performance context, quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution) and qualitative factors (e.g., innovation, complexity).

Geography - A census tract or a block numbering area 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 an MSA to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, and its disposition (e.g., approved, denied, withdrawn).

Home Mortgage Loans - Such loans include home purchase and home improvement loans, as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwellings loans, loans for the purchase of manufactured homes, and refinancings of home improvement and home purchase loans.

Limited-Scope 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, branch distribution).

Low Income - Income levels that are less than 50% of the median family income.

Median Family Income (MFI) - The median income determined by the United States Census Bureau every 10 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 Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities, that have a high degree of interaction.

Middle Income - Income levels that are at least 80% and less than 120% of the MFI.

Moderate Income - Income levels that are at least 50% and less than 80% of the MFI.

Small Business Loans - Loans with an original amount of \$1 million or less that are: (1) secured by nonfarm nonresidential properties; or (2) commercial and industrial loans to U.S. addresses.

Small Farm Loans - Loans with original amounts of \$500 thousand or less that are: (1) secured by farmland; or (2) to finance agricultural production and other loans to farmers.

Tier 1 Capital - The total of common shareholder's equity, perpetual preferred shareholder's equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper Income - Income levels that are 120% or more of the MFI.

Overall CRA Rating

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

The following table shows 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		
Low Satisfactory			X
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.

The major factors supporting the institution’s rating are:

- < Lending activity demonstrates good responsiveness to community needs by making small business loans.
- < NBA has a good geographic distribution of loans by income level of geography and by income level of the borrower.
- < A high dollar volume of investment and grant activity that is very responsive to the community’s needs.
- < NBA has an excellent dollar volume of community development loans that are very responsive to community needs.
- < NBA provides banking services which are reasonably accessible to essentially all portions of the its assessment area, including LMI geographies and persons.

< Participation in community development services enhances NBA's service performance.

Description of National Bank of Arizona

Description of Institution

National Bank of Arizona (NBA), is a wholly-owned subsidiary of Zions Bancorporation (Zions), headquartered in Salt Lake City, Utah. Zions currently has banking subsidiaries in Arizona, California, Colorado, Idaho, Nevada, Utah, and Washington. Zions reported consolidated total assets of \$13 billion as of December 31, 1998.

NBA is an intrastate bank which has identified nine assessment areas within the State of Arizona that we used to evaluate its CRA performance. In order of population size, these are Phoenix, Tucson, Prescott, Yuma, Flagstaff, Bisbee, Springerville, Payson, and Safford. About 68% of the state's population lives within these areas.

NBA's operations are centered in Phoenix. Its assessment areas encompass most of the state. In addition to the main office, NBA serves these assessment areas with 34 full-service branch offices, 28 automated teller machines (ATMs), and one Loan Production Office (LPO). As of December 31, 1998, NBA reported total assets of \$1.5 billion, net Tier 1 Capital of \$89 million, and a loan-to-deposit ratio of 81%. There are no financial impediments that limit NBA's ability to help meet the credit needs of its assessment areas.

NBA's traditional market niche is business banking. Until recently, retail banking products were not marketed to the general public, but instead were offered primarily to meet the personal needs of the bank's clientele from the business community. An extensive delivery network was not needed to service this market niche, so NBA did not have many branches. The affiliated Zions Mortgage Company operated offices in Arizona to serve the demand for home mortgage loans.

NBA began to transform itself into a full service bank in 1995, with the acquisition of a full service bank in Yuma. Then, in 1997, NBA acquired 11 branches from Wells Fargo Bank, N.A., located in rural communities throughout Arizona. NBA opened several new branches around the state, too. These actions solidified NBA's transition into a full service bank. As NBA's delivery network grew, Zions Mortgage Company closed its offices in Arizona.

NBA now offers a full range of commercial, retail, and real estate loan products, and retail and commercial deposit products within its assessment areas. As of December 31, 1998, the loan portfolio represented approximately 62% of total assets, with commercial loans accounting for 79% of the loan portfolio. Residential real estate loans accounted for 14% of the loan portfolio. The remaining 7% is a combination of consumer, credit card, and agricultural loans.

NBA's CRA performance was last evaluated as of June 12, 1997. At that time the bank's overall performance was rated "Satisfactory."

Scope of Evaluation

Evaluation Period/Products Evaluated

This Performance Evaluation (PE) evaluates information on NBA's small business, small farm, and residential mortgage loan originations from January 1, 1997, through December 31, 1998. We also evaluated community development loans made between June 12, 1997, through May 3, 1999. Unless otherwise stated, references to loans means exclusively these four types of loans and not any other NBA loan originations (e.g., large commercial loans). We evaluated NBA's performance in delivering retail banking and community development services to its assessment areas since our last CRA examination. And we reviewed its record of making qualifying investments in the period June 12, 1997, through May 3, 1999. Appendix A contains additional details on the scope of this Performance Evaluation (PE).

Data Integrity

We performed a data integrity review in February of 1999, focusing on a sample of small business loans which are the bank's primarily lending activity. The bank's CRA officer also reviewed data integrity for most small business loans and small farm loans made in 1997 and 1998. Both reviews found significant errors in the gross annual revenues figures reported for borrowers. During this CRA examination NBA sent in corrected 1998 information. NBA also gave us corrected 1997 small business and small farm loan information which allowed us to perform an accurate analysis of most aspects of small business and small farm lending activity for 1997 and 1998. However, since the official 1997 small business and small farm loan reports have already been finalized and compiled into aggregate data on a national basis, that data base cannot be corrected. Therefore, the embedded errors in the revenue figures make the market share analysis of small business and small farm loans by revenue size of the borrower inaccurate. These errors affect the accuracy and consistency of the information presented in Tables 10 and 11 in Appendix D.

Since small business lending carried the most weight in NBA's performance, we were most concerned with the errors made in the reporting of that activity. Due to errors in the reported small business loan data for 1997, the *Rev \$1 million or less* column under *Market Share* in Table 10 conveys inaccurate information. The numbers in that column indicate that NBA's market share of small business loans made to firms with revenues of \$1 million or less is significantly below its overall market share for all small business loans, in all of its assessment areas. That is incorrect. The footnotes to Table 10 and comments under *Conclusions with Respect to Performance Tests* more fully explain the impact of the errors and how we addressed them in our evaluation.

Selection of Areas for Full Scope Review

We selected four assessment areas for our full scope reviews. These are Phoenix, Tucson, Yuma, and Safford. The first three are MSA's where NBA has its strongest presence, and which are representative of overall CRA performance. We selected Safford as representative of performance in the bank's five non-MSA assessment areas. The two limited scope reviews are of Flagstaff and the other four non-MSA assessment areas grouped together, hereafter referred to as the Nonmetropolitan Areas (NAA).

Ratings

NBA's overall performance rating is predicated upon its performance in the MSAs. These account for 90% of the bank's lending activity by number and dollar of loans, and have 91% of the bank's deposits. Sixty-nine percent (69%) of the bank's branches and 68% of the ATMs are located in these areas.

Other Information

This PE considered banking opportunities in NBAs assessment areas, particularly in lending. To determine banking opportunities, we made five community contacts; one each in Phoenix, Tucson, and Safford, and two in Yuma. And we reviewed several community contact forms already on file with banking regulators. The contacts were with community groups, economic development groups, low-income housing groups, and a hospital district. Also, we perused applicable Internet sources. We obtained information regarding the local economies, banking needs, and the impact of the North American Free Trade Agreement (NAFTA) on border towns. We consulted with bank management to gain their perspective about banking opportunities in the assessment areas. In the remainder of this PE, when we discuss banking opportunities in the various assessment areas, the information came from these sources.

Fair Lending Review

In conjunction with this CRA evaluation, we also performed a fair lending examination of NBA. We reviewed policies, practices, and procedures for making loans and we tested a sample of applications for owner-occupied, conventional home purchase loans received in 1998. We tested for illegal discrimination by comparing declined applications from Hispanics to approved applications from Whites.

Based on the findings of this review:

- C NBA satisfactorily complies with fair lending laws in making conventional home purchase loans.
- C We found no evidence of disparate treatment being applied on a prohibited basis, and no violations of fair lending laws were cited.
- C NBA has a satisfactory process in place to help ensure ongoing compliance with fair lending laws.

Conclusions with Respect to Performance Tests

Phoenix Assessment Area

NBA demonstrated good CRA performance in this assessment area, with good lending activity, satisfactory investments, and satisfactory services.

Summary of Institution's Operations

The Phoenix assessment area (PAA) is NBA's primary market. The bank's headquarters office is located in this assessment area. NBA has more of its facilities located here than in any of its other assessment areas. Since the previous CRA evaluation, NBA significantly increased its facilities in, and the size of, this assessment area. See Table 13 in Appendix D for a breakdown of the number and location of branches and ATMs by income level of census tract.

NBA is the eighth largest commercial bank in Phoenix when ranked by total deposits, holding approximately two percent of the total commercial bank deposits in the MSA. By dollar volume, the offices in the PAA account for 39% of the bank's HMDA and CRA reportable loans and 47% of the bank's total deposits as of December 31, 1998. Local banking competition is aggressive and includes numerous commercial banks, thrifts, credit unions, and other financial service providers, some of which are affiliates of large, national banking companies headquartered outside of the state. Aggregate loan data for 1997 shows there were 209 financial institutions that reported small business loan activity in the Phoenix MSA. That is in addition to the SBA and other sources of financing that are not required to report lending activity under the CRA. There are 595 financial service providers that reported home mortgage loan activity in the area in 1997.

NBA's traditional product lines in private banking and commercial lending were its primary activities in this assessment area during the evaluation period. The bank continues to target small- to mid-size businesses, although greater effort is being directed towards a full service profile.

Description of Assessment Area

The Phoenix Metropolitan area has experienced one of the fastest growing economies in the nation. Its primary industry has changed from agriculture to high technology (high-tech) manufacturing. Phoenix is ranked in the top one-third of the nation for electronic production. Tourism continues to be an important part of the overall economic base. Rapid growth, increasing diversification, and declining unemployment characterize the prevalent economic conditions during the evaluation period. Refer to the Market Profiles for Full-Scope Areas Tables in Appendix B for demographic information about this assessment area.

The December 20, 1996, issue of *The Business Journal* lists the major employers with between 4,200 and 20,000 employees. Ranked by number of employees, they are: Motorola; Samaritan Health System; Allied Signal Aerospace; Arizona Public Service; US West Communications; American Express; Bank of America, NA; Bank One Arizona, NA; America West Airlines; Wells Fargo Bank, NA; Honeywell; and Salt River Project. This list illustrates the economic diversification of the largest employers in the PAA. In addition to the industries represented in the list, economic activity is supported by concentrations of jobs in the services, professional, food processing, chemicals, warehousing, retail trade, tourism, gaming, government, construction, bio-technology, mining, and agriculture sectors. Demographic data shows that 88% of the small businesses and small farms in the PAA have less than 20 employees. Agricultural production is comprised of cotton, grains, alfalfa, vegetables, citrus crops, and dairy products. The PAA also contains major retirement communities, such as Sun City. And Luke Air Force Base is located in the western part of the assessment area.

Three American Indian Reservations occupy significant territory in the eastern and southern parts of the PAA. These are the Fort McDowell Indian Reservation, the Salt River Indian Reservation, and the Gila River Indian Reservation. Gaming, agriculture, tourism, industrial parks, retail shopping centers, mining, and waste disposal are the major sources of employment on the reservations. The combined Native American population on the reservations is estimated at 18,600, which is about 1% of the population of the Phoenix MSA.

The opportunities present in the Phoenix market are lending for commercial real estate development, financing small businesses in the retail and service sectors, funding residential real estate development, financing affordable housing, and funding agricultural production. Community groups placed particular emphasis on the need for affordable housing for all segments of the community. And loans for small businesses remain a major need in the PAA according to several groups contacted.

Performance Tests

Lending Test

Overall lending performance in the PAA is good. NBA originated 1,535 small business, home mortgage, small farm, and community development loans during the evaluation period. We focused on NBA's small business lending in this assessment area since this is their primary market niche. NBA's market rank in the PAA for small business loans is 8. This equals its market rank for deposits in Maricopa County. This is indicative of a good volume of lending activity in the bank's primary product line in relation to its size and capacity.

NBA achieved a significant market rank in small farm lending, too. Its market rank of 3 for this loan product is higher than its rank of 8 for total deposits, an indication of a good volume of lending activity in this product in relation to the bank's size and capacity. A strong record of small business lending, a good record of small farm lending, and a significant volume of community development lending tend to offset the bank's relatively weak performance in residential home mortgage lending. Since small business lending and small farm lending are identified needs in this assessment area, NBA's good performance in these product lines carries significant weight.

Distribution of Loans by Income Level of the Geography

Refer to Tables 2 through 6 in Appendix D for the facts and data used to evaluate the distribution of loans by income level of the geography. Absent mitigating circumstances, to the extent that the pattern of lending activity in low- and moderate-income geographies equals or exceeds the percentage of businesses, farms, or owner-occupied housing units located in those geographies (referred to as the demographics), a satisfactory to good lending performance is indicated.

Small Business Loans

The geographic distribution of small business loans in the PAA is very good. This conclusion is supported by NBA's success in generating a pattern of loan activity which closely approximates or exceeds the demographic distribution of businesses in low- and moderate-income geographies. The percentage of small business loans in the PAA that were made to borrowers in low-income geographies is nearly double the percentage of businesses located in those geographies. And in moderate-income geographies, the percentage of the bank's loans made to businesses is close to the percentage of businesses located in those geographies. We did not identify any conspicuous gaps in the bank's small business lending. Overall, NBA was successful in distributing small business loan products to the economically disadvantaged geographies most in need of the stabilizing and revitalizing effects of small business lending.

Market share analysis further supports a conclusion that the bank is responsive to the need for small business loans. NBA's market share of small business loans in the PAA equals its market share for total deposits. NBA's market share of small business loans to borrowers in low-income geographies is twice the size of its overall market share of small business loans in the entire assessment area. And its market share in moderate-income geographies matches its overall market share for all geographies. This indicates that NBA was able to either maintain or increase its overall market share while making small business loans to borrowers in low- and moderate-income geographies. Within the context of the highly competitive banking environment in the PAA, NBA's market share performance is notable.

Small Farm Loans

The geographic distribution of small farm loans in the PAA is considered good, too. NBA did not make any small farm loans in low-income geographies, but only a small percentage of farms in the PAA are located in those geographies. The percentage of loans made in moderate-income geographies is more than double the percentage of farms located in those geographies.

Market share data demonstrates equally positive results. NBA's market share for small farm loans is higher than its market share for total deposits in the PAA. Nil market share was achieved in low-income geographies, mitigated by the low percentage of farms located in those geographies. But the market share attained in moderate-income geographies surpassed NBA's overall market share of small farm loans made in the PAA. Overall, NBA did well by distributing a reasonable percentage of its small farm loans to the economically depressed geographies deemed to be in greatest need.

Home Mortgage Loans

The volume of home mortgage loans is not significant in the PAA relative to the size of the market, with NBA achieving less than a one percent market share in all three home mortgage loan products. Since the bank's home mortgage lending in this area is primarily used as an accommodation to business customers, we did not place significant weight on the relative lack of volume in these products. Analysis of the geographic distribution of these loan products does not yield meaningful results because the volume of loans is too low relative to the market.

Distribution of Loans by Income Level of the Borrower

Refer to Tables 7 through 11 in Appendix D for the facts and data used to evaluate the distribution of loans by income level of the borrower. Absent mitigating circumstances, to the extent that the pattern of lending activity to low- and moderate-income borrowers equals or exceeds the percentage of low- and moderate-income families in the PAA (also referred to as the demographics), a satisfactory to good lending performance is indicated. A similar standard holds true for lending to small businesses and small farms.

Small Business Loans

The distribution of small business loans by income level of the borrower demonstrates an adequate level of responsiveness to area credit needs. NBA's percentage of small business loans made to businesses with revenues of \$1,000,000 or less is substantially higher than the aggregate percentage for all other reporting lenders in the assessment area. But, the bank's lending activity did fall short of the demographic for that size of business in the assessment area.

Also, the majority of NBA's small business loans were of relatively low dollar amounts. More than half of the loans were in amounts of \$100,000 or less. More than two-thirds were in amounts of \$250,000 or less. To the extent that the size of a loan is indicative of the size of the business, NBA did an adequate job of distributing its small business loan products to fairly small businesses.

Poor data integrity in the revenue numbers in NBA's reported small business loan activity for 1997 makes a market share analysis by income level of business unreliable. NBA under reported the number of loans made in 1997 to firms with revenues of \$1,000,000 or less. However, using the bank's 1998 performance as a basis for estimating 1997 performance, we calculate that NBA's market share of small business loans made to firms with revenues of \$1,000,000 or less actually equaled or exceeded its overall market share for all small business loans. This is a good indication that the bank focused a disproportionate effort towards satisfying the credit needs of small businesses, where community groups tell us the greatest need exists.

Small Farm Loans

The distribution of small farm loans by income level of the borrower demonstrates a good level of responsiveness to area credit needs. Similar to its small business lending, NBA did well according to two different measures of this lending activity - percentage made to small farms and size of loan.

NBA's percentage of small farm loans made to farms with revenues of \$1,000,000 or less is substantially higher than the aggregate percentage for all other reporting lenders in the PAA. But, the bank's lending did fall short of the demographic for that size of farm in the area.

The majority of NBA's small farm loans were of relatively low dollar amounts. Almost half of the loans were in amounts of \$100,000 or less. Well over three-fourths were in amounts of \$250,000 or less. To the extent that the size of a loan is indicative of the size of the farm, NBA did well in distributing most of its small farm loans to fairly small farms.

Similar to NBA's reporting of small business loan activity in 1997, errors also occurred in the revenue numbers reported for small farm loans. The result was that NBA under reported the number of loans made to farms with revenues of \$1,000,000 million or less, which makes some of the market share information in Table 11 inaccurate. We estimate that NBA's actual market share of loans made to farms with revenues of \$1,000,000 million or less equals or exceeds its overall market share for all small farm loans made in 1997.

Community Development Lending

The amount and variety of community development lending in the PAA demonstrates very good responsiveness to this kind of credit need. Community services, affordable housing, redevelopment, child care, education, new jobs, and other community development kinds of benefits accrued to the PAA through NBA's community development lending. And all of these loans financed activities targeted primarily towards low- and moderate-income persons or CTs. Refer to Table 1 in Appendix D for supporting information.

Loans made by NBA provided funds to nonprofit organizations to:

- C Construct a child day care facility,
- C Build a drug rehabilitation center,
- C Acquire a portable classroom building,
- C Renovate an inter-tribal facility located in a historic district, and
- C Provide operating revenue for a drug screening facility.

Loans were made to various businesses to finance construction or renovation of affordable housing. Another loan to a business provided money to construct a manufacturing plant located on the Gila River Indian Reservation. The plant will provide permanent jobs that will help stabilize and revitalize the reservation. Other loans financed the establishment of new businesses located in or adjacent to low- or moderate-income geographies, that will provide jobs and have stabilizing effects. A municipal lease financed water lines for an economically depressed community in Pinal County which needs upgrades to its infrastructure. Information on hand shows that more than 20 new jobs and at least 67 new affordable housing units are attributable to financing by NBA. The total of these types of loans equals 26% of net Tier 1 Capital apportioned to this assessment area according to the percentage of the bank's deposits derived from this area.

Flexible or Innovative Lending Practices

NBA did not employ any flexible or innovative lending practices to enhance its lending performance in the PAA in this evaluation period.

Investment Test

NBA's record of performance in making qualified investments, grants, and donations in the PAA is satisfactory. The PAA has a complex socio-economic environment with a variety of opportunities for community development investment. However, there are a large number of financial institutions (some much larger than NBA) and other entities competing for the opportunities. In this context, NBA achieved satisfactory results.

As Table 12 in Appendix D shows, a relatively small amount of investment was made in this assessment area during the current evaluation period, compared to other assessment areas. The current period investments consist of cash donations to a variety of nonprofit groups, an investment in a qualifying FNMA mortgage loan pool, and a capital contribution to a newly formed SBIC. In addition to the amount shown in the table, the bank donated excess furniture to a nonprofit group that provides community development services in the assessment area. Current period investments equal 2% of net Tier 1 Capital apportioned to this assessment area according to the percentage of the bank's deposits received in this area.

And, on behalf of the bank, officers and employees organized and funded annual golf tournaments for nonprofit groups that provide emergency shelter, intervention, and educational services. In the past two years, a total of \$47,000 was raised and donated to three community groups.

NBA does still carry on its books a substantial amount of qualifying investments made during the prior CRA evaluation period. Most of this is the portion of an SBA loan pool comprised of loans made in Arizona. This has a positive continuing impact on the PAA through the provision of capital to support important government small business lending programs.

The bank's investment activity, for the current and prior CRA periods, meets identified community needs in the PAA. Affordable housing, small business lending, and community services were provided as a result of bank funds. And, it should be noted that NBA made substantial qualifying investments in other assessments areas, where the need is greater and the number of banks available to fill the need is lower. Certainly its investment performance in the Safford assessment area is a good example.

Service Test

Retail Banking Services

The quantity, quality, and accessibility of NBA's service-delivery system within the PAA is satisfactory. NBA provides a full range of banking services at its main office and branch locations. Services among office locations do not vary in a way that inconveniences portions of the assessment area. Hours of operation are equitable bank-wide. Refer to Table 13 in Appendix D for the distribution of branches and ATM's located in NBA's assessment areas.

NBA expanded its branch system during the evaluation period. Four branches were opened and two branches were purchased, one of which was later sold. This increase in branches represents a significant allocation of resources towards expanding the bank's delivery network.

The distribution of the bank's branches by income level of geography is satisfactory. None of NBA's branches in the PAA are in low-income geographies, but only five percent of the population lives in those geographies. The percentage of branches located in moderate-income geographies is substantially higher than the percentage of the population that lives in those geographies. Of the five new branches, two are in moderate-income geographies and three are in middle- and upper-income geographies.

To provide further access to financial services, NBA included ATMs in its new branches. Four ATMs were opened in the PAA during the evaluation period; previously it had none. The ATM's are full service and are bi-lingual. The geographic distribution of the ATMs is the same as that of the bank's branches, and is considered satisfactory.

Community Development Services

NBA provides a significant amount of community development services to the PAA. These services include providing technical assistance to nonprofit organizations which serve low- and moderate-income individuals/families, and to other groups which promote community revitalization, community development, small business lending, or affordable housing. NBA also provides financial planning to individuals and groups, primarily focusing on those in low- and moderate-income categories. The following are examples of these services:

- C** A bank sponsored grant through the FHLB Affordable Housing Program funded renovation of a facility which provides housing for formerly homeless people who are serviced by Central Arizona Shelter Service. NBA administers the grant free of charge.
- C** Another bank sponsored grant through the FHLB is supporting renovation of a residential facility which will provide 20 units for homeless persons with AIDS and 22 units for homeless Native Americans recovering from alcoholism or substance abuse. Again, NBA administers the grant free of charge.
- C** A bank officer serves on the loan committee of a nonprofit organization that provides small businesses with long-term financing. They are a certified SBA 504 lender.
- C** A bank officer participates in loan workshops for small business owners hosted by the Service Corps of Retired Executives.

In addition, bank officers and employees provide technical expertise on behalf of the bank to 10 other similar nonprofit organizations that provide community development services similar to the ones listed above.

Tucson Assessment Area

NBA demonstrated satisfactory CRA performance in this assessment area, with good lending activity, low investment activity, and satisfactory services.

Summary of Institution's Operations

The Tucson assessment area (TAA) is the second largest market for NBA in terms of population and loan volume. The offices in this assessment area account for 25% of the bank's total HMDA and CRA reportable loans and 25% of the bank's total deposits as of December 31, 1998. The bank's Tucson branches hold approximately 5% of the total commercial bank deposits in the MSA, ranking them sixth among the commercial banks in the MSA. Local banking competition is aggressive and includes affiliates of large, national banking companies headquartered outside the state, a locally-owned bank, savings banks, and other financial service providers. Aggregate loan data for 1997 shows that there are 76 financial institutions that reported small business loan activity in the Tucson MSA, in addition to the SBA and other lenders that are not subject to the reporting requirements of the CRA. There are 357 financial service providers that reported home mortgage loan activity in Tucson in 1997.

NBA's traditional product lines in private banking and commercial lending were its primary activities in this assessment area during the evaluation period. The bank continues to target small- to mid-size businesses, although greater effort is being directed towards a full service profile.

Description of the Assessment Area

Large tracts of land in the TAA are undeveloped. There are two American Indian Reservations, a National Forest, a National Park, two National Wildlife Refuges, an Air Force Base, part of a separate Air Force Range, and a National Monument in this assessment area, all with restrictions on land use. Refer to the Market Profiles for Full-Scope Areas Tables in Appendix B for demographic information about this assessment area.

The economy of Tucson is very similar to the economy of Phoenix in that rapid growth has been spurred by an influx of population and the high-tech industry. Manufacturing employment in metropolitan Tucson more than doubled in the past 10 years. Tourism contributed over \$2.3 billion to the Pima County economy in the past year and continues to be a major part of the economic base. The major employers in Pima County are the University of Arizona; federal, state, and local governments; Raytheon, IBM, and Davis-Monthan Air Force Base. Many new hotels have been constructed, providing employment opportunities.

Opportunities exist for financing commercial real estate, small businesses, residential real estate, and the growing retail service sector. Competition is very intense for the larger commercial loans. Some areas of Tucson provide limited opportunities for lending because of physical barriers. For example, to the west and northeast of Tucson are national parks. The area surrounding Davis-Monthan Base is a matured residential area that provides limited business opportunities.

Performance Tests

Lending Test

The bank's lending activity in Tucson represents a good response to the assessment area's credit needs. NBA originated 980 home mortgage, small business, small farm, and community development loans during the evaluation period. We focused on NBA's small business lending in this assessment area since this is the bank's primary market niche. NBA's market rank in the TAA for small business loans is 3. This is higher than its market rank in Pima County for total deposits, which is 6. This is indicative of a good volume of lending in the bank's primary product line in relation to its size and capacity in this assessment area. Also, NBA excels in geographic distribution of small business loans and the distribution of loans among borrowers of different income levels.

Distribution of Loans by Income Level of the Geography

Refer to Tables 2 through 6 in Appendix D for the facts and data used to evaluate the distribution of loans by income level of the geography.

Small Business Loans

NBA's overall loan distribution to geographies throughout the TAA is very good, with lending occurring in nearly all census tracts. We did not identify any conspicuous gaps in small business lending. The distribution of loans exceeds the business demographics in the low-income CTs and meets the demographics in the moderate-income CTs. NBA's market share of small business loans is more than three times its market share of total deposits in this assessment area. Further, the bank's market share in low- and moderate-income CTs exceeds its overall market share of small business loans.

Home Mortgage Loans and Small Farm Loans

The volume of these loans is too low to yield meaningful analysis. In both of these loan categories, NBA made only a small percentage of the aggregate reported loans in 1997, achieving less than a one percent market share. Hence, these are not significant products for NBA in this area, which is reasonable in view of the bank's historical market niche.

Distribution of Loans by Income level of the Borrower

Refer to Tables 6 through 11 in Appendix D for the facts and data used to evaluate the distribution of loans by income level of the borrower.

Small Business Loans

NBA's distribution of small business loans by income level of borrower is adequate. While the bank's percentage of loans to businesses with revenues of \$1,000,000 or less is below the demographic for these businesses, it is significantly higher than the aggregate percentage of these types of loans for all other reporting lenders active in the assessment area.

The majority of the bank's small business loans were of relatively low dollar amounts. Most of the loans were below \$100,000. More than three-fourths of the loans were below \$250,000. Because there is some correlation between size of loan and size of business, the small size of the loans indicates most of NBA's reported small business loans were made to small businesses.

We estimate that NBA's market share of small business loans made in 1997 to firms with revenues of \$1,000,000 or less equals or exceeds its overall market share for all small business loans. This is a good indicator of NBA's focus on making loans to small businesses.

Included in its reported small business loan totals is a working capital loan made to a construction company that is building affordable housing. The company has an agreement with the city of Tucson to include up to 33 units of affordable homes in its residential real estate development. The price range of the affordable homes will be \$72,000 to \$81,000.

Community Development Lending

The bank's performance in the TAA demonstrates good responsiveness to community development credit needs. Through its community development lending, NBA is involved in community services, education, child care, and various other activities which primarily serve low- and moderate-income areas and families.

Loans made by NBA to nonprofit organizations provided funds for working capital for a community services organization, credit enhancement for construction of a community resource center, and working capital for an organization that specializes in family intervention and stress management services.

In addition to loans to nonprofit organizations, NBA extended loans to a limited liability company (LLC) and a transportation company to meet community development needs. The loan to the LLC

financed the remodeling of a vacant K-Mart building in a location designated by the city of Tucson as a redevelopment area. This was part of a complex financing package in which the borrower also obtained a low-rate loan from the Business Development Finance Corporation in exchange for an agreement to provide apprenticeships, job opportunities, and on-site child care. The loan to the transportation company financed a vehicle which will be used to fulfill contracts with Pima County and the Tohono O'odam Indian Nation to transport elderly, disabled, and poor persons. Total CD loans equal 17% of the bank's net Tier 1 Capital allocated to this assessment area by percentage of deposits received in this area.

Flexible or Innovative Lending Practices

NBA did not use any flexible or innovative lending practices to enhance its lending performance in the TAA in this evaluation period.

Investment Test

The TAA is prosperous and does not contain some of the adverse economic factors present in the Phoenix and Yuma assessment areas. Therefore, investment opportunities are not as abundant in the TAA as they are in the PAA and YAA. Even so, NBA's record of performance in making qualified investments, grants, and donations in the TAA is poor. A nominal amount of funds were invested in this evaluation period, and there are no investments on the books from the prior evaluation period that benefited this assessment area. NBA allocated its investment funds to other assessment areas, which is considered reasonable. Table 12 in Appendix D shows supporting information for this evaluation.

Service Test

Retail Banking Services

The quantity, quality, and accessibility of NBA's service-delivery system within the TAA is satisfactory. NBA's delivery system is accessible to all portions of this assessment area. The bank's branches are centrally located along major arterials. They are evenly distributed between low-, moderate-, and upper-income geographies.

NBA did not make any changes in its delivery system in this assessment area during the evaluation period. NBA provides a full range of banking services at its main office and branch locations. Services among office locations do not vary in a way that inconvenience portions of the assessment area, particularly low- and moderate-income geographies. Hours of operation are equitable between the branches. Reference Table 13 in Appendix D for the distribution of branches and ATM's located in NBA's assessment areas.

NBA only has one ATM in this assessment area. However, since this bank's main focus is on small business customers, it reaches the customer base through courier service and the night deposit boxes located at each branch.

Community Development Services

NBA provides some community development services to the TAA. These services include providing technical assistance to nonprofit organizations which serve low- and moderate-income individuals/families, and to other groups which promote community revitalization, community development, small business lending, or affordable housing.

Yuma Assessment Area

NBA demonstrated good CRA performance in this assessment area, with good lending activity, excellent investment activity, and good services.

Summary of Institution's Operations

The Yuma assessment area (YAA) is NBA's third largest market in terms of population, but has its second largest concentration of banking facilities. NBA entered this market several years ago by acquiring another bank. The acquired institution was a full service bank, and its acquisition marked the beginning of NBA's transition towards a full service bank. NBA has branches in San Luis, Wellton, and Yuma. See Table 13 in the Appendix for a breakdown of the number and location of branches and ATMs by income level of census tract.

NBA ranks second in deposits among its peers according to market share reports, holding approximately 21% of the total commercial bank deposits in the MSA. NBA's offices in this assessment area account for 18% of the bank's HMDA and CRA reportable loans and 13% of the bank's total deposits as of December 31, 1998.

Although bank mergers have reduced the number of local banks, NBA competes with affiliates of large, national banking companies headquartered outside the state. Competition for retail services is high from mortgage companies and other non-banking financial institutions. Aggregate loan data for 1997 shows there are 200 financial service providers that reported home mortgage loan activity in the area. There are 26 financial institutions that reported small business loan activity in the Yuma MSA in 1997, in addition to the SBA and other lenders that are not subject to regulatory reporting requirements under the CRA.

Description of the Assessment Area

Data regarding demographic information can be found in Market Profiles for Full-Scope Areas Tables in Appendix B.

Although service industries, followed by retail trade, are the primary employers, agriculture and tourism are the predominate economic forces in Yuma. Demographic data shows that 87% of the small business and small farms in the assessment area have less than 20 employees. Lettuce, citrus, cotton, wheat, and vegetables are the principal crops, with export activity occurring to Pacific Rim countries. Several major agricultural companies, such as Dole Food, Co., maintain local operations and provide employment opportunities. Yuma is also the retail trade center for both the growing local population and shoppers from Mexico.

Yuma has experienced significant growth. Manufacturing accounts for less than 10% of county-wide employment, but twin-plant, or “maquiladora” operations have grown in response to NAFTA. Yuma’s economic development program is helping to expand light manufacturing employment opportunities. This is evident in the recent influx of large companies such as Bose Corporation, Westlock, TSE Brakes, and Dai-Wu. A U.S. Marine Corps Air Station and other military base activities also contribute to economic stability.

Much of the Yuma resident population is considered transient because migrant farm workers live in San Luis and Somerton, but travel to other parts of Arizona and California for seasonal harvest work. When the growing season ends, some rely on unemployment income. Retirees and tourists account for substantial, but fluctuating population growth. During the winter months, the YAA population doubles with the arrival of winter visitors. Although this growth is perceived as an economic benefit, it also creates stress on Yuma’s infrastructure. Given the low income and transient nature of the additional population, the area suffers from an insufficient local tax base to support needed improvements.

From community contacts, we learned that affordable housing is a major need. Also, small business financing is needed to help the YAA attract firms that will boost local employment. And the heavy dependence of the local economy upon agricultural production engenders the need for financing of small farm operations. Lending opportunities include low income-oriented residential mortgage products, small business, and agricultural financing. Projects to improve Yuma’s infrastructure provide additional potential sources for community investment purposes.

Performance Tests

Lending Test

Overall, NBA’s lending performance is good in the YAA. NBA originated 702 small business, home mortgage, small farm, and community development loans during the evaluation period. In this

assessment area, the bank has had more of a full service profile, so equal weight was given to all types of CRA related lending activity. NBA's market rank for home purchase, home improvement, small business, and small farm loans ranged between 1 and 5. These are in line with its market rank of number 2 for deposits in Yuma County, indicating a good volume of lending in relation to the bank's size and capacity. NBA's market rank for home mortgage refinance loans is substantially lower than its deposits market rank, but this lending product is the least important in the determination of CRA performance. A strong record of small business, small farm, and community development lending overshadows a mediocre performance in home mortgage lending.

Distribution of Loans by Income Level of the Geography

Refer to Tables 2 through 6 in Appendix D for the facts and data used to evaluate the geographic distribution of the bank's lending performance.

Small Business Loans

The geographic distribution of small business loans in the YAA is very good. NBA demonstrates its success by generating a pattern of loan activity which exceeds the demographic distribution of businesses located in moderate-income geographies. The percentage of small business loans made to borrowers in moderate-income geographies exceeds the percentage of small businesses located in those geographies. There are no businesses located in the one low-income CT, and therefore no opportunity to make this kind of loan in the tract. Otherwise, we did not identify any conspicuous gaps in small business lending.

Market share analysis further supports NBA's good geographic distribution of small business loans. The bank's market share for this kind of loan is reasonably close to its market share for deposits in Yuma County, which is 21%. NBA's market share of small business loans to borrowers in moderate-income geographies exceeds its overall market share of small business loans in the entire YAA.

Small Farm Loans

The geographic distribution of small farm loans in the YAA is good. NBA's origination of small farm loans in moderate-income geographies exceeds the percentage of farms in those geographies. There are no small farms reported in low-income geographies, and therefore no opportunity to make this type of loan in those tracts. We did not identify any conspicuous gaps in this lending activity.

Market share analysis yields equally favorable results. The bank's market share of small farm loans is more than double its market share of deposits. NBA demonstrates excellent performance with its market share of loans to small farms in moderate-income areas exceeding its overall market share by a substantial margin.

Home Mortgage Loans

NBA's performance in home purchase and mortgage refinance lending is relatively weak. The volume of home improvement lending in the YAA is too small to evaluate. Since home improvement loans are not an identified community need, the low volume of this product is not considered an adverse factor.

The bank did not offer any affordable mortgage loan products during this evaluation period, thus limiting its ability to serve low- and moderate-income home purchasers. There are no owner-occupied housing units in the low-income census tract, which explains the absence of lending in that tract. The geographic distribution of home purchase and mortgage refinance loans made in moderate-income areas is low compared to the percentage of owner occupied units in those geographies.

The bank is ranked third among its competitors in home purchase lending and fourth in mortgage refinance lending. Market share analysis of these two products indicates a weak performance. NBA's market share of all home mortgage loan products is substantially lower than its market share of deposits in this assessment area. NBA's market share of loans made in moderate-income CTs is half the size of its overall market share, indicating relatively less success in penetrating the less affluent areas.

Distribution of Loans by Income Level of the Borrower

Refer to Tables 7 through 11 in Appendix D for the statistical information used to evaluate distribution of loans by income level of the borrower.

Small Business Loans

The distribution of small business loans by income level of the borrower in the YAA is good. NBA's percentage of small business loans made to businesses with revenues of \$1,000,000 or less is substantially higher than the aggregate percentage for all other reporting lenders in the assessment area. This lending activity exceeded the demographic for this size of business in the assessment area, which illustrates very good performance.

Also, the majority of the bank's small business loans were of relatively low dollar amounts. More than half of the loans were in amounts of \$100,000 or less. More than two-thirds were in amounts of \$250,000 or less.

Again, poor data integrity in the revenue numbers in NBA's reported small business loan activity for 1997 makes a market share analysis of loans to businesses with revenues less than \$1,000,000 unreliable. But, we estimate that NBA's market share of small business loans made in 1997 to firms with revenues of \$1,000,000 or less equals or exceeds its overall market share for all small business loans. This is a good indicator of NBA's focus on making loans to small businesses.

Small Farm Loans

The distribution of small farm loans by income level of the borrower in the YAA is good. NBA did well according to two different measures of this lending activity.

NBA's percentage of small farm loans made to farms with revenues of \$1,000,000 or less is substantially higher than the aggregate percentage for all other reporting lenders in the assessment area. This lending activity substantially exceeded the demographic for this size of farm in the assessment area, which illustrates very good performance.

Also, the majority of the bank's small farm loans were of relatively low dollar amounts. Significantly more than half of the loans were in amounts of \$100,000 or less. More than two-thirds were in amounts of \$250,000 or less.

The same kind of errors in occurred in reported revenue numbers in NBA's small farm loan activity for 1997 as occurred in small business loans. The number of loans to farms with revenues of \$1,000,000 or less was under reported. Contrary to the information in Table 11, we estimate that NBA's actual market share of such loans equals or exceeds its overall market share for all small farm loans.

Home Mortgage Loans

NBA's performance in home purchase and mortgage refinance lending is weak. The volume of home improvement lending in the YAA is too small to evaluate.

The borrower distribution of NBA's home purchase and mortgage refinance loans made to low- and moderate-income persons is low compared to the percentage of low- and moderate-income families in the YAA.

Market share analysis of these two products also indicates an overall weak performance. NBA's market share of loans made to low- and moderate-income borrowers is generally less than its overall market share for these kinds of loans. The exception is the bank's market share of refinance loans made to low-income borrowers, where NBA greatly exceeded its overall market share. However, this carries relatively little weight since mortgage refinance loans are not a priority need according to community groups in Yuma.

Community Development Lending Activities

NBA engaged in a significant level of community development lending during this evaluation period. Community development loans made in this assessment area equal 29% of the bank's net Tier 1 Capital allocated to assessment area by percentage of deposits. The loans funded such projects as:

- C Construction of a commercial building in a downtown redevelopment zone on a site that has been vacant a long time. This will create new jobs for low- and moderate-income persons and will help revitalize and stabilize the downtown area.
- C A loan to a nonprofit group to purchase a small office building to use as headquarters.
- C A loan to a check cashing business located in San Luis, where there is a heavy concentration of Mexican Nationals and Hispanic American citizens, many of whom are migrant farm workers. This a much needed banking service to low- and moderate-income persons who do not have bank accounts.
- C Municipal leases to Somerton and San Luis to finance acquisition of equipment for basic municipal services, such as fire and police protection. Both communities are economically depressed.

Flexible or Innovative Lending Practices

The bank's reported small business loan amount includes a loan made to help fund a new business. In the financing package provided, NBA partnered with Arizona Multi Bank CDC. In order to make the loan, the bank waived a loan policy requirement pertaining to loan-to-value of the collateral.

Affordable Housing Lending

Also included in NBA's small business loans is a line of credit extended to a construction company to help finance a residential real estate development that will provide much needed affordable housing in the community. The price range of the homes will be \$50,000 to \$79,500.

Investment Test

Refer to Table 12 in Appendix D for the statistical information used to evaluate the bank's performance in making qualifying investments, grants, and donations.

Since a disproportionately heavy concentration of economically disadvantaged migrant farm workers reside in this assessment area, the need for community development investments is greater than in the PAA and TAA. There is less economic prosperity in the YAA than in the bank's other MSA assessment areas, and therefore less capital available to fund community development projects. Also, there are fewer financial institutions operating in the YAA to service the demand for investment funds. Hence, more weight is given to NBA's investments in the YAA than those made in the PAA and TAA.

NBA made a high level of investments in this evaluation period that met the area's needs for community development. Most of the funds went to purchase City of San Luis Water and Sewer Bonds. The bonds financed much needed improvements to the infrastructure of this economically depressed community, which is comprised primarily of low- and moderate-income residents. The bank also made a cash donation to a nonprofit group and gave excess furniture to local schools. These entities provide educational and community services primarily targeted to low- and moderate-income persons. Qualifying investments equal 28% of net Tier 1 Capital apportioned to this assessment area by percentage of deposits, which is considered excellent.

Service Test

Retail Banking Services

NBA provides a satisfactory level of services in the YAA. NBA expanded its presence and has a reasonable distribution of facilities. One branch was added through purchase from another bank. The branch is in a middle-income census tract. No branches or ATMs are located in the one low-income CT, which is the town of Wellton. The CT had a population of 15 as of the 1990 U.S. Census, not nearly enough people to warrant the capital expense for a bank facility.

Otherwise, the distribution of NBA's banking facilities is good. The bank has a higher percentage of its branches and ATM's located in moderate-income tracts than the percentage of the population living in those tracts. The percentage of NBA's facilities located in moderate-income tracts also exceeds the percentage of moderate-income tracts in the assessment area. Refer to Table 13 in Appendix D for the facts and data used to evaluate the bank's performance in providing services to the entire assessment area.

Safford Assessment Area

NBA demonstrated satisfactory CRA performance in this assessment area, with satisfactory lending activity, exceptional investment activity, and adequate services.

Summary of Institution's Operations

This assessment area was added by the bank in July 1997, when it purchased branches from Wells Fargo Bank, N.A. NBA operates one full-service branch in the Safford assessment area (SAA). This branch accounts for 2% of the bank's total deposits as of December 31, 1998, and 2% of the bank's HMDA and CRA reportable loans. This branch has approximately 16% of the total commercial bank deposits in the area, placing it second among the commercial banks operating in the region. NBA also has one ATM in Safford.

Description of the Assessment Area

Agriculture has been the mainstay of the economy, with cotton the principal commodity. The remaining farmland is used for hay and small grains. Cattle ranching also plays an important role in the SAA.

Two major projects are under way that will diversify and strengthen the economy. A \$200 million astrophysical site at Stewart Observatory on Mount Graham is under construction and a 160-acre world class tourist attraction at Discovery Park is being developed. Additionally, Phelps Dodge Corp., owner of one copper mine in Graham County, has just recently purchased a second mine. Construction work at the two sites will establish copper mining as an important element of the economy. Also, extensive modernization and expansion of the local medical center, which serves a large surrounding area stretching into New Mexico to the east, and the San Carlos Indian Reservation to the north, will boost the local economy. Retail trade and services continue to play a significant role. Safford serves as a trade center for an estimated 60,000 people in a wide area of eastern Arizona and western New Mexico.

Based on input from community contacts and the bank, we identified the need for financing of affordable housing, home buyer education, and financing of small businesses. The recent addition of this assessment area reduces performance expectations for this evaluation period.

Performance Tests

Lending Test

The bank's lending activity in the SAA represents a satisfactory response to the assessment area's credit needs. In this assessment area, NBA originated 62 home mortgage, small business, and small farm loans during the evaluation period. We focused on NBA's small business lending since this is its primary market niche by dollar volume. NBA's market rank for small business loans is reasonably close to its market rank of number 2 for deposits in Graham County, particularly in light of the bank's relatively recent entrance into this market. This indicates a satisfactory volume of lending in relation to NBA's size and capacity. Home mortgage loans are a close second in volume, but most of those are refinance loans which carry less weight in CRA performance because they were not identified as an important need by representatives of the community. Since all five CTs are middle-income tracts, analysis of geographic distribution of loans is not meaningful. We did analyze the distribution of loans among borrowers of different income levels.

Distribution of Loans by Income Level of the Borrower

Refer to Tables 6 through 11 in Appendix D for the facts and data used to evaluate the distribution of loans by income level of the borrower.

Small Business Loans

NBA's distribution of small business loans by income level of borrower is very good. The percentage of loans made to businesses with revenues of \$1,000,000 or less actually exceeds the demographics for these businesses in the SAA. Furthermore, NBA's percentage of loans to businesses in this category is significantly higher than the aggregate percentage for all other reporting small business lenders in the area.

In addition, the majority of NBA's small business loans were of relatively low dollar amounts. More than two-thirds of the loans were below \$100,000 and 86% of the loans were below \$250,000.

As already discussed, NBA under reported the number of loans to firms with revenues of \$1,000,000 or less. Contrary to the information in Table 11, we estimate that NBA's actual market share of small business loans exceeds its overall market share for all small business loans. This is a good indication that NBA focuses on making loans to small businesses.

We did not identify any conspicuous gaps in lending.

Home Mortgage Loans

There was too low a volume of home purchase and home improvement loans to analyze. The distribution of home mortgage refinance loans is weak, with the percentage of the bank's loans made to

low- and moderate-income borrowers significantly below the percentage of low- and moderate-income families in the assessment area. Loan volumes are too low for meaningful market share analysis.

Small Farm Loans

The bank did not extend a sufficient volume of small farm loans to allow a meaningful analysis of the lending by income level of borrower.

Flexible or Innovative Lending Practices

NBA did not employ any flexible or innovative lending practices to enhance its lending performance in the SAA in this evaluation period.

Investment Test

NBA's record of performance in making qualified investments, grants, and donations in the SAA is exceptional. The bank provided \$18,302,000 in qualified investments, grants, and donations which equals more than 10 times net Tier 1 Capital allocated to the assessment area by percentage of deposits. All of the investment funds financed ongoing modernization and expansion of the Mt. Graham Community Hospital. Quality medical care is a critical need in many rural areas, including the SAA. And this investment fulfills the need.

This hospital serves the population of Graham County and a large surrounding area which includes an estimated population of 60,000. This includes the San Carlos Indian Reservation. The next closest full service hospital is 110 miles away, in Tucson. The hospital estimates that 50% of its work is not reimbursed due to the low-income nature of the patients. In order to meet the medical needs of the growing retiree population and continue to adequately serve the community, Mt. Graham will have to offer specialty care. Therefore, the expansion of the hospital is essential. NBA underwrote and purchased the bond issues for this expansion.

Representatives of the hospital stated that NBA was one of several financial institutions contacted about putting together this financing package. They praised NBA's superior responsiveness in comparison to the others. This type and volume of investment in a community of this size is considered a high impact community development investment which exemplifies a best practice to comply with the CRA. Refer to Table 12 in Appendix D for supporting information.

Service Test

The quantity, quality, and accessibility of NBA's service-delivery system within the SAA is adequate. The bank's branch is centrally located within the assessment area. Refer to Table 13 in Appendix D for supporting information.

NBA provides a full range of banking services at the Safford office. Hours of operation are reasonable. The bank has one ATM in this assessment area. NBA also reaches the customer base through courier service and the night deposit box located at the branch.

Flagstaff Assessment Area

NBA demonstrated adequate CRA performance in this assessment, with satisfactory lending activity, nominal investment activity, and adequate services.

Summary of Institution's Operations

The Flagstaff assessment area (FAA) is NBA's fourth largest market by population, and has its third largest concentration of banking facilities. NBA has branches in the cities of Flagstaff, Page, and Williams. See Table 13 in the Appendix for a summary of the number and location of branches and ATMs by income level of census tract.

NBA holds approximately 19% of the total commercial bank deposits in the MSA, placing it third among commercial banks in the MSA. The offices in this assessment area account for 7% of the bank's total loan portfolio and 6% of the bank's total deposits as of December 31, 1998. Banking competition is intensive, from 7 other banks which have 23 branches in the area, and from other financial service providers. Aggregate reported loan information for 1997 shows 30 lenders made small business loans and 221 lenders made home mortgage loans in the MSA.

Description of the Assessment Area

The FAA consists of the entire Flagstaff MSA, which is comprised of all 25 CTs within Coconino County. All three low-income tracts and one of the five moderate-income tracts in the FAA are located on American Indian Reservations. Flagstaff is 140 miles north of Phoenix.

Coconino County is huge, encompassing 12 million acres. Much of the land is undeveloped, with part of Grand Canyon National Park, two National Forests, three American Indian Reservations, three National Monuments, the Painted Desert, Anasazi Indian Ruins, and the southern tip of the Lake Powell/Glen Canyon National Recreation Area dominating the land use.

It is understandable that the economy of the FAA is based primarily on tourism.

Performance Tests

Lending Test

Distribution of Loans

Refer to Tables 2 through 6 in Appendix D for the facts and data used to evaluate the geographic distribution of the bank's lending performance, and Tables 7 through 11 for supporting information about the distribution of loans by income level of the borrower.

Small Business Loans

Small business loans were NBA's most important lending product in the FAA.

Geographic distribution of small business loans is weak:

- C The percentage of small business loans made in low-income CTs exceeded the demographic, however, the percentage of loans made in moderate-income tracts is substantially lower than the demographic.
- C NBA's market share of small business loans in low-income CTs is nominal, and its market share in moderate-income tracts is less than its overall market share for the assessment area.

Distribution of small business loans by income level of the borrower is very good:

- C The percentage of loans made by NBA to businesses with revenues of \$1,000,000 or less is higher than the percentage of that size of business in the assessment area. Further, the bank's pattern of lending to this size of business is significantly higher than the percentage of loans made by all other reporting lenders to this size of business.
- C Well over half of NBA's small business loans were in amounts of \$100,000 or less, and over three-quarters were in amounts of \$250,000 or less.

- C We estimate that NBA's market share of loans made to firms with revenues of \$1,000,000 or less is equal to or higher than its overall market share of loans made to small businesses in 1997.

Home Mortgage and Small Farm Loans

Within the context of an MSA, the volume of home mortgage and small farm loans is too low for meaningful analysis.

Community Development Loans

NBA made a substantial amount of community development loans in the FAA during the evaluation period, totaling almost 49% of net Tier 1 Capital allocated to this assessment area by percentage of deposits. The most significant is a large acquisition and development loan to finance a modular housing development in Flagstaff. The development is designated an affordable housing project by the city, enabling buyers to participate in various government sponsored affordable home loan programs. This loan, along with qualifying municipal leases made by the bank, meet important needs in the FAA.

Investment Test

Refer to Table 12 in Appendix D for the facts and data used to evaluate the bank's performance in making qualifying investments, grants, and donations. NBA made a nominal amount of qualifying donations in the FAA during this evaluation period, a weak performance. Available investment funds were effectively employed in other assessment areas, where the need was greater.

Service Test

See Table 13 in Appendix D for supporting information.

Retail Banking and Community Development Services

NBA's level of retail banking services in the FAA is weak. Although the bank did add three branches and three ATMs in the assessment area during this evaluation period, none of its facilities are located in low- or moderate-income geographies. Performance in this test is bolstered by CD services provided to the FAA. Bank employees provided technical advice on behalf of the bank to three different nonprofit groups involved in CD activities.

Nonmetropolitan Assessment Area

NBA demonstrated adequate CRA performance in this assessment area, with adequate lending activity, no investment activity in the current period, and satisfactory services.

Summary of Institution's Operations

None of these four nonmetropolitan areas are major markets for NBA, and combined they represent only 9% of the bank's total loan portfolio. NBA has had banking facilities in Prescott and Payson for years. But, the Bisbee and Springerville assessment areas were added in July 1997 with the purchase of branches from Wells Fargo Bank, N.A. Later in the year, NBA opened another branch in the Bisbee area. The Payson assessment area is only served by NBA through operation of a Loan Production Office. However, this generates enough business that the bank designated this an assessment area.

Description of the Bisbee Assessment Area

The Bisbee assessment area is located in Cochise County and comprises 14 of the 21 BNAs. There are no low-income geographies in the county. Only middle- and upper-income geographies were excluded from the assessment area.

Description of the Prescott Assessment Area

The Prescott assessment area is located in Yavapai County and comprises all 20 BNAs in the county. There are no low-income geographies in this region, and only one moderate-income geography.

Description of the Springerville Assessment Area

The Springerville assessment area is located in Apache County and comprises 3 of the 14 BNAs in the county. They are all upper-income geographies that make up the City of Springerville. All of the surrounding area were excluded, including two upper-income, one middle-income, one moderate-income, and seven lower-income geographies. No low- or moderate-income geographies were excluded.

Description of the Payson Assessment Area

The Payson assessment area is located in Gila County and comprises five of the fifteen BNAs in the county. All five are middle-income geographies. There is only one low-income and one moderate-income geography in the county. The Payson Economic Development Corporation provides a revolving loan fund program for use by local and relocating firms requiring low interest financing. All of Gila County is an Enterprise Zone.

Performance Tests

Lending Test

The bank's lending activity in the NAA represents an adequate response to the assessment areas' credit needs. We focused on NBA's small business and home mortgage lending in these areas since these products were their primary market niche. A mitigating factor is the recent addition of two of these assessment areas to the bank's service area, with a lower performance expectation for these.

Distribution of Loans by Income Level of Geography

Refer to Tables 2 through 6 for the information used to evaluate distribution of loans by income level of geography, and Tables 6 through 11 for the information used to evaluate distribution by income level of the borrower.

Small Business Loans

NBA's overall loan distribution to geographies throughout the NAA is weak.

- C The volume of small business loans in moderate-income BNAs is well below the demographics for businesses located in moderate-income areas.
- C The bank's market share of small business loans in moderate-income geographies is less than its overall market share in all geographies.
- C We did not identify any conspicuous gaps in lending.

NBA's distribution of small business loans by income level of borrower is good.

- C The bank's percentage of loans to businesses with \$1,000,000 or less in annual revenues is below the demographic for such business, but is well above the aggregate percentage for all other reporting small business lenders.
- C The majority of the bank's small business loans were of relatively low dollar amounts.
- C We estimate that NBA's market share of loans to firms with revenues of \$1,000,000 or less equals or exceeds its overall market share of small business loans made in 1997.

Home Mortgage Loans

NBA's geographic distribution of home mortgage loans is weak.

- C The bank's dispersion of loans to moderate-income geographies is well below the demographics for owner occupied units. Lending volume for all three mortgage loan products is too low for market share analysis.

The bank's home mortgage lending reflects poor distribution of loans to low- and moderate-income borrowers.

- C The bank's lending performance fell significantly below the demographics for low- and moderate-income borrowers in the NAA for all three home mortgage loan products.

Small Farm Loans

The bank's volume of small farm loans is too low for meaningful analysis.

Investment Test

NBA's record of performance in making qualifying investments, grants, and donations in the NAA is weak. Table 12 in Appendix D shows the bank made no investments during this evaluation period, but does have on the books a fair amount of investments from the prior period.

Service Test

Retail Banking Services

The bank made a significant capital investment to expand its service area in this evaluation period. In at least one of these rural locations, this bank's branch is the only banking facility in town. It is noteworthy that NBA stepped into some rural markets being abandoned by a much larger financial institution. Accessibility and operating hours are adequate. See Table 13 in Appendix D for information about the distribution of branches and ATMs in the NAA.

Community Development Services

NBA provided a satisfactory level of community development services during the evaluation period. Bank officers provided technical support on behalf of the bank to two nonprofit organizations which promote economic development and the creation of small businesses in the assessment areas. Also, another bank officer is involved with a nonprofit group which provides community and educational services to teenage girls, the majority of whom are from the impoverished Navajo Indian Reservation. These services meet important needs in the NAA.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and products considered. The table also reflects the metropolitan and nonmetropolitan 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”).

Time Period Reviewed	Lending Test: January 1, 1997 through December 31, 1998 Investment Test: June 12, 1997 through May 3, 1999 Service Test: June 12, 1997 through May 3, 1999	
Financial Institution	Products Reviewed	
National Bank of Arizona Phoenix, AZ	Small Business Loans, HMDA Loans, Small Farm Loans, Community Development Loans, Community Development Investments, Retail Banking Services and Community Development Services	
Affiliates(s)	Affiliate Relationship	Products Reviewed
None reviewed	NA	NA
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Phoenix	Full-Scope	MSA
Tucson	Full-Scope	MSA
Yuma	Full-Scope	MSA
Safford	Full-Scope	NonMSA

Flagstaff	Limited-Scope	MSA
NonMSA Areas	Limited-Scope	NonMSA

Appendix B: Market Profiles for Full-Scope Areas

DEMOGRAPHIC INFORMATION FOR PHOENIX ASSESSMENT AREA (MSA 6200)						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Geographies (CT/BNAs)	468	6%	24%	37%	32%	1%
Population by Geography	2,126,985	5%	26%	39%	30%	<1%
Owner-Occupied Housing by Geography	510,171	2%	20%	42%	36%	0
Businesses by Geography	84,384	6%	25%	37%	32%	<1%
Farms by Geography	1,613	4%	20%	40%	36%	0
Family Distribution by Income Level	552,207	19%	18%	23%	39%	<1%
Distribution of Low- and Moderate-Income Families throughout AA Geographies	207,382	8%	38%	39%	15%	0
Median Family Income		\$35,425	Median Housing Value		\$86,396	
HUD Adjusted Median Family Income for 1998		\$48,300	Unemployment Rate (1998)		3.06%	
Households Below the Poverty Level		11.07%				

This assessment area is part of the largest population center of Arizona and comprises most of the state’s largest MS. The MSA contains two counties, Maricopa and Pinal. The bank’s assessment area now consists of 468 of the 490 CT in those two counties. NBA added 210 census tracts to this assessment area since the previous CRA evaluation. Of the 22 CTs excluded from the assessment area, more are middle- and upper-income tracts than are low- and moderate income tracts. Most of the excluded tracts are in Pinal County, and they are excluded due to their lack of proximity to the bank’s one branch in the county. No low- and moderate-income tracts were arbitrarily excluded.

About 99% of the population in the MSA live in Maricopa County and 1% live in Pinal County. Approximately 30% the households in the area receive social security or public assistance, and 16% receive retirement income.

DEMOGRAPHIC INFORMATION FOR TUCSON ASSESSMENT AREA (MSA 8520)						
DEMOGRAPHIC CHARACTERISTICS	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Geographies (CT/BNAs)	111	8%	29%	36%	27%	0
Population by Geography	652,404	4%	28%	36%	31%	0
Owner-Occupied Housing by Geography	155,227	2%	20%	40%	38%	0
Businesses by Geography	24,164	8%	28%	34%	31%	0
Farms by Geography	520	5%	22%	36%	37%	0
Family Distribution by Income Level	166,750	19%	18%	23%	40%	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	62,894	7%	39%	38%	16%	0
Median Family Income		\$30,985	Median Housing Value		\$79,521	
HUD Adjusted Median Family Income for 1998		\$41,700	Unemployment Rate (1998)		3.56%	
Households Below the Poverty Level		15.36%				

The TAA consists of 111 of the 115 census tracts in Pima County in southeastern Arizona. The census tracts excluded by the bank were outlying geographies with little deposit or loan activity. No low- or moderate-income tracts were arbitrarily excluded.

Approximately 33% of the households in the assessment area receive social security or public assistance, and 18% receive retirement income.

DEMOGRAPHIC INFORMATION FOR YUMA ASSESSMENT AREA (MSA 9360)						
DEMOGRAPHIC CHARACTERISTICS	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Geographies (CT/BNAs)	23	4%	30%	44%	22%	0
Population by Geography	106,895	<1%	34%	37%	28%	0
Owner-Occupied Housing by Geography	23,846	<1%	28%	42%	30%	0
Businesses by Geography	2,689	0	32%	40%	28%	0
Farms by Geography	193	0	24%	49%	27%	0
Family Distribution by Income Level	28,110	20%	18%	22%	40%	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	10,716	0%	47%	38%	15%	0
Median Family Income		\$25,648	Median Housing Value		\$62,857	
HUD Adjusted Median Family Income for 1998		\$33,500	Unemployment Rate (1998)		4.45%	
Households Below the Poverty Level		16.54%				

The YAA consists of nearly all of the third most populous metropolitan area in southwestern Arizona. Yuma is approximately 180 miles southwest of Phoenix. The YAA is comprised of 23 of the 24 CTs in the Yuma MSA. The one excluded tract is unpopulated land in a U.S. Air Force Range. The population is concentrated into a fairly small area in the southwestern portion of the YAA because huge tracts of land are used by the Air Force and a U.S. Army Proving Ground. Also, a large parcel of real estate is set aside as a National Wildlife Refuge, with associated restrictions on land use. The small Cocopah Indian Reservation lies within the YAA. No low- or moderate-income CTs were arbitrarily excluded from this assessment area.

Approximately 38% of the households receive social security or public assistance, and 21% receive retirement income.

DEMOGRAPHIC INFORMATION FOR SAFFORD ASSESSMENT AREA						
DEMOGRAPHIC CHARACTERISTICS	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Geographies (CT/BNAs)	5	0	0	100%	0	0
Population by Geography	18,025	0	0	100%	0	0
Owner-Occupied Housing by Geography	4,406	0	0	100%	0	0
Businesses by Geography	553	0	0	100%	0	0
Farms by Geography	13	0	0	100%	0	0
Family Distribution by Income Level	4,574	21%	18%	21%	40%	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	1,778	0	0	100%	0	0
Median Family Income		\$23,997	Median Housing Value		\$51,860	
HUD Adjusted Median Family Income for 1998		\$31,200	Unemployment Rate (1998)		4.14%	
Households Below the Poverty Level		19.14%				

The Safford assessment area (SAA) is a remote, non-MSA area located about 170 miles southeast of Phoenix. It includes 5 of the 11 BNAs in Graham County, all of which are middle-income tracts. In defining its assessment area, NBA excluded two middle-income, one low-income, and three undesignated geographies. The low-income geograph is the San Carlos Indian Reservation, which is the entire northern part of the county. Given the distance from the ban one branch, the exclusion seems reasonable.

Since 1994, there has been an influx of people, including retirees and employees for the three prisons in the area. Approximately 47% of the households in the area receive social security or public assistance.

Appendix C: Explanation of Standardized Tables

Content of Standard Tables

The following is a listing and brief description of each table included in the set of standard tables. Also included is other information that may assist the reader in interpreting the tables. Market rank is based on the number of loans made by the bank as compared to all other lenders in the MSA/assessment area 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 MSA/assessment area. High market rank is not an automatic indicator of strong (“outstanding”) performance. Market rank should be evaluated in the contextual sense.

Table 1. - Lending Volume - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MSA/assessment area.

Table 2. - Geographic Distribution of Home Purchase Loan Originations - 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 rank and market share information based on the most recent aggregate market data available.

Table 3. - Geographic Distribution of Home Improvement Loan Originations - See Table 2.

Table 4. - Geographic Distribution of Home Mortgage Refinance Loan Originations - See Table 2.

Table 5. - Geographic Distribution of Small Business Loan Originations - The percentage distribution of the number of small loans (<\$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 rank and market share information based on the most recent aggregate market data available.

Table 6. - Geographic Distribution of Small Farm Loan Originations - The percentage distribution of the number of small loans (<\$500,000) to farms originated and purchased by the bank in low-, moderate-, middle- and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market rank and market share information based on the most recent aggregate market data available.

Table 7. - Borrower Distribution of Home Purchase Loan Originations - 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 MSA/assessment area. The table also presents market rank and market share information based on the most recent aggregate market data available.

Table 8. - Borrower Distribution of Home Improvement Loan Originations - See Table 7.

Table 9. - Borrower Distribution of Home Mortgage Refinance Loan Originations - See Table 7.

Table 10. - Borrower Distribution of Small Business Loan Originations - Compares the percentage distribution of the number of small loans (<\$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. The table also 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 11. - Borrower Distribution of Small Farm Loan Originations - Compares the percentage distribution of the number of small loans (<\$500 thousand) 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. The table also 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 12. - Qualified Investments - Presents the number and dollar amount of qualified investments made by the bank in each MSA/assessment area. The table presents aggregate investment data, regardless as to if the investment was made during prior evaluation periods (and is still outstanding) or made during the current evaluation period. If the timing of the investments impacts the examiner's evaluation of the bank's performance under the test, such an issue should be addressed in the narrative.

Table 13. - Distribution of Branch and ATM Delivery System - Compares the percentage distribution of the number of the bank's retail branches and ATMs in low-, moderate-, middle- and upper-income geographies to the percentage of the population within each geography.

Appendix D: Standardized Tables**Table 1. Lending Volume**

LENDING VOLUME													State: Arizona	Evaluation Period: January 1, 1997, To December 31, 1998	
MSA/Assessment Area:	% of Total Bank Deposits in Rated Area	Home Mortgage		Small Business		Small Farm		Community Development		Total Reported Loans		% of Total Reported Bank Loans in Rated Area			
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)				
Full-Scope:															
Phoenix	47%	244	\$45,676	1,246	\$222,258	32	\$4,397	13	\$10,717	1,535	\$283,048	39.34%			
Tucson	25%	123	\$20,868	840	\$139,056	12	\$1,933	5	\$3,690	980	\$165,547	25.12%			
Yuma	13%	456	\$39,498	183	\$22,618	57	\$8,310	6	\$3,360	702	\$73,786	17.99%			
Safford	2%	33	\$2,085	24	\$2,587	5	\$417	0	\$0	62	\$5,089	1.59%			
Limited-Scope:															
Flagstaff	6%	121	\$17,047	163	\$21,075	3	\$1,022	5	\$2,600	292	\$41,744	7.48%			
NonMSA areas	7%	222	\$27,639	154	\$22,794	9	\$878	1	\$270	331	\$51,581	8.48%			

Table 2. Geographic Distribution of Home Purchase Loan Originations

Geographic Distribution: HOME PURCHASE																State: Arizona		Evaluation Period: January 1, 1997, To December 31, 1998	
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Purchase Loans				
	% 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	#	% of Total			
Full-Scope:																			
Phoenix	2%	1%	20%	4%	42%	38%	36%	57%	161	< 1	**	**	**	**	110	19%			
Tucson	2%	0%	20%	5%	40%	15%	38%	80%	132	< 1	**	**	**	**	39	7%			
Yuma	0%	0%	28%	9%	42%	59%	30%	33%	3	8	0	4	11	8	316	54%			
Safford	0%	0%	0%	0%	100%	100%	0%	0%	30	< 1	**	**	**	**	6	1%			
Limited-Scope:																			
Flagstaff	15%	5%	11%	8%	41%	46%	32%	41%	42	< 1	**	**	**	**	37	6%			
NonMSA areas	0%	0%	6%	3%	58%	69%	36%	29%	129	< 1	**	**	**	**	77	13%			

(*) Based on 1997 Aggregate HMDA Data only.

(**) When the bank's market share is below 1 we did not compute the market share by census tract.

Table 3. Geographic Distribution of Home Improvement Loan Originations

Geographic Distribution: HOME IMPROVEMENT										State: Arizona		Evaluation Period: January 1, 1997, To December 31, 1998					
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Improvement Loans		
	% 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	#	% of Total	
Full-Scope:																	
Phoenix	2%	0%	20%	50%	42%	50%	36%	0%	111	< 1	**	**	**	**	2	4%	
Tucson	2%	0%	20%	5%	40%	21%	38%	74%	23	< 1	**	**	**	**	19	40%	
Yuma	0%	0%	28%	37%	42%	36%	30%	27%	5	4	0	5	4	3	11	23%	
Safford	0%	0%	0%	0%	100%	100%	0%	0%	4	4	0	0	4	0	3	6%	
Limited-Scope:																	
Flagstaff	15%	0%	11%	0%	41%	100%	32%	0%	21	< 1	**	**	**	**	3	6%	
NonMSA areas	0%	0%	6%	0%	58%	100%	36%	0%	26	< 1	**	**	**	**	10	21%	

(*) Based on 1997 Aggregate HMDA Data only.

(**) When the bank's market share is below 1 we did not compute the market share by census tract.

Table 4. Geographic Distribution of Home Mortgage Refinance Loan Originations

Geographic Distribution: HOME MORTGAGE REFINANCE																	State: Arizona		Evaluation Period: January 1, 1997, To December 31, 1998	
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Mortgage Refinance Loans					
	% 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	#	% of Total				
Full-Scope:																				
Phoenix	2%	2%	20%	3%	42%	33%	36%	62%	205	< 1	**	**	**	**	131	26%				
Tucson	2%	0%	20%	5%	40%	12%	38%	83%	122	< 1	**	**	**	**	61	12%				
Yuma	0%	0%	28%	11%	42%	57%	30%	32%	10	4	0	2	5	4	129	25%				
Safford	0%	0%	0%	0%	100%	100%	0%	0%	6	4	0	0	4	0	24	5%				
Limited-Scope:																				
Flagstaff	15%	1%	11%	5%	41%	38%	32%	56%	41	1	0	0	< 1	2	81	16%				
NonMSA areas	0%	0%	6%	4%	58%	65%	36%	31%	69	< 1	**	**	**	**	79	16%				

(*) Based on 1997 Aggregate HMDA Data only.

(**) When the bank's market share is below 1 we did not compute the market share by census tract.

Table 5. Geographic Distribution of Small Business Loan Originations

Geographic Distribution: SMALL BUSINESS																State: Arizona		Evaluation Period: January 1, 1997, To December 31, 1998	
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Small Business Loans				
	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total			
Full-Scope:																			
Phoenix	6%	11%	25%	23%	36%	36%	33%	29%	8	2	4	2	2	2	1,246	48%			
Tucson	7%	8%	28%	28%	34%	31%	31%	33%	8	6	7	7	6	6	840	32%			
Yuma	0%	0%	32%	35%	39%	32%	29%	33%	3	13	0	14	14	17	183	7%			
Safford	0%	0%	0%	0%	100%	100%	0%	0%	5	5	0	0	5	0	24	1%			
Limited-Scope:																			
Flagstaff	< 1%	1%	20%	14%	50%	52%	30%	32%	8	4	< 1	3	4	5	163	6%			
NonMSA areas	0%	0%	6%	3%	58%	50%	36%	47%	8	3	0	2	3	4	154	6%			

(*) Based on 1997 Aggregate Small Business Data only.

Table 6. Geographic Distribution of Small Farm Loan Originations

Geographic Distribution: SMALL FARM																	State: Arizona		Evaluation Period: January 1, 1997, To December 31, 1998	
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Small Farm Loans					
	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total				
Full-Scope:																				
Phoenix	4%	0%	20%	43%	41%	30%	35%	27%	3	8	0	12	7	8	32	27%				
Tucson	5%	0%	22%	16%	36%	67%	37%	17%	3	15	0	13	25	0	12	10%				
Yuma	0%	0%	24%	28%	49%	61%	27%	11%	1	45	0	54	39	57	57	48%				
Safford	0%	0%	0%	0%	100%	100%	0%	0%	3	7	0	0	5	43	5	4%				
Limited-Scope:																				
Flagstaff	3%	0%	22%	0%	53%	67%	22%	33%	2	20	0	0	20	0	3	3%				
NonMSA Areas	0%	0%	2%	0%	62%	43%	36%	57%	3	7	0	0	5	43	9	8%				

(*) Based on 1997 Aggregate Small Farm Data only.

Table 7. Borrower Distribution of Home Purchase Loan Originations

Borrower Distribution: HMDA HOME PURCHASE																State: Arizona		Evaluation Period: January 1, 1997, To December 31, 1998	
MSA/Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank*	Market Share by Borrower Income**					Total Home Purchase Loans				
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upp	#	% of Total			
Full-Scope:																			
Phoenix	19%	1%	18%	12%	23%	8%	39%	75%	161	< 1	***	***	***	***	110	19%			
Tucson	19%	0%	18%	5%	23%	8%	40%	80%	132	< 1	***	***	***	***	39	7%			
Yuma	20%	2%	18%	7%	22%	24%	40%	67%	3	8	5	4	8	15	316	54%			
Safford	21%	0%	18%	0%	21%	0%	40%	100%	30	< 1	***	***	***	***	6	1%			
Limited-Scope:																			
Flagstaff	23%	0%	16%	5%	20%	22%	41%	73%	42	< 1	***	***	***	***	37	6%			
NonMSA Areas	17%	0%	17%	7%	21%	23%	45%	69%	129	< 1	***	***	***	***	77	13%			

(*) As a percentage of loans with borrower income information available. No information was available for 2% of loans originated by NBA.

(**) Based on 1997 Aggregate HMDA Data only.

(***) When the bank's market share is below 1 we did not compute the market share by census tract.

Table 8. Borrower Distribution of Home Improvement Loan Originations

Borrower Distribution: HOME IMPROVEMENT																State: Arizona		Evaluation Period: January 1, 1997, To December 31, 1998	
MSA/Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank**	Market Share by Borrower Income**					Total Home Improvement Loans				
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Over all	Low	Mod	Mid	Upp	#	% of Total			
Full-Scope:																			
Phoenix	19%	0%	18%	0%	23%	50%	39%	50%	111	< 1	***	***	***	***	2	4%			
Tucson	19%	0%	18%	0%	23%	0%	40%	100%	23	< 1	***	***	***	***	19	40%			
Yuma	20%	9%	18%	9%	22%	46%	40%	36%	5	4	5	3	9	3	11	23%			
Safford	21%	0%	18%	33%	21%	0%	40%	67%	4	4	0	0	0	6	3	6%			
Limited-Scope:																			
Flagstaff	23%	34%	16%	0%	20%	33%	41%	33%	21	< 1	***	***	***	***	3	6%			
NonMSA Areas	17%	10%	17%	10%	21%	50%	45%	30%	26	< 1	***	***	***	***	10	21%			

(*) As a percentage of loans with borrower income information available. No information was available for 0% of loans originated by NBA.

(**) Based on 1997 Aggregate HMDA Data only.

(***) When the bank's market share is below 1 we did not compute the market share by census tract.

Table 9. Borrower Distribution of Home Mortgage Refinance Loan Originations

Borrower Distribution: HOME MORTGAGE REFINANCE				State: Arizona				Evaluation Period: January 1, 1997, To December 31, 1998								
MSA/Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank**	Market Share by Borrower Income**					Total Home Mortgage Refinance Loans	
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Over all	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
Phoenix	19%	2%	18%	7%	23%	17%	39%	73%	205	< 1	***	***	***	***	131	26%
Tucson	19%	0%	18%	7%	23%	8%	40%	67%	122	< 1	***	***	***	***	61	12%
Yuma	20%	6%	18%	15%	22%	16%	40%	64%	10	4	10	3	3	5	129	25%
Safford	21%	4%	18%	4%	21%	17%	40%	75%	6	4	20	0	6	3	24	5%
Limited-Scope:																
Flagstaff	23%	0%	16%	10%	20%	11%	41%	78%	41	1	0	1	1	1	81	16%
NonMSA Areas	17%	1%	17%	6%	21%	19%	45%	73%	69	< 1	1	< 1	< 1	0	79	16%

(*) As a percentage of loans with borrower income information available. No information was available for 9% of loans originated by NBA.

(**) Based on 1997 Aggregate HMDA Data only.

(***) When the bank's market share is below 1 we did not compute the market share by census tract.

Table 10. Borrower Distribution of Small Business Loan Originations

Borrower Distribution: SMALL BUSINESS												State: Arizona		Evaluation Period: January 1, 1997, To December 31, 1998	
MSA/Assessment Area:	Businesses with Revenues of \$1 million or less			Loans by Original Amount Regardless of Business Size			Market Share****		Total Small Business Loans						
	% of Businesses*	% BANK Loans**	% Market Loans***	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$1,000,000	All	Rev \$1 million or less *****	#	% of Total	Avg Loan Size				
Full-Scope:															
Phoenix	71%	52%	33%	56%	23%	21%	2	< 1	1,246	48%	\$178				
Tucson	72%	52%	38%	62%	21%	18%	6	< 1	840	32%	\$166				
Yuma	72%	77%	35%	68%	18%	14%	13	< 1	183	7%	\$124				
Safford	72%	79%	31%	68%	18%	14%	5	0	24	1%	\$108				
Limited-Scope:															
Flagstaff	72%	76%	31%	66%	23%	11%	4	0	163	6%	\$129				
NonMSA Areas	78%	68%	36%	66%	18%	16%	3	1	154	6%	\$148				

(*) As a percentage of businesses with known revenues.

(**) As a percentage of loans with revenue information available. No information was available for 2% of loans originated by NBA.

(***) The market consists of all other Small Business reporters in NBA's assessment area and is based on 1997 Aggregate Small Business Data only.

(****) Based on 1997 Aggregate Small Business Data only.

(*****) In 1997, NBA significantly under reported the number of loans made to firms with gross annual revenues of \$1 million or less. That causes errors in these market share numbers. Using NBA's 1998 lending activity as a basis for estimates, we believe that in all of the assessment areas NBA's market share of loans to firms with revenues of \$1 million or less equals or exceeds its overall market share of small business loans.

Table 11. Borrower Distribution of Small Farm Loan Originations

Borrower Distribution: SMALL FARM			State: Arizona	Evaluation Period: January 1, 1997, To December 31, 1998								
MSA/Assessment Area:	Farms with Revenues of \$1 million or less			Loans by Original Amount Regardless of Farm Size			Market Share****		Total Small Farm Loans			
	% of Farms*	% BANK Loans**	% Market Loans***	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$500,000	All	Rev \$1 million or less *****	#	% of Total	Avg Loan Size	
Full-Scope:												
Phoenix	84%	56%	42%	47%	41%	12%	8	0	32	27%	\$137	
Tucson	88%	83%	47%	42%	33%	25%	15	0	12	10%	\$161	
Yuma	68%	96%	25%	54%	30%	16%	45	13	57	48%	\$146	
Safford	85%	80%	12%	100%	0%	0%	0	0	5	4%	\$83	
Limited-Scope:												
Flagstaff	78%	100%	75%	0%	33%	67%	20	0	3	3%	\$341	
NonMSA Areas	90%	78%	19%	57%	29%	14%	20	0	9	8%	\$98	

(*) As a percentage of farms with known revenues.

(**) As a percentage of loans with revenue information available. No information was available for 0% of loans originated by NBA.

(***) The market consists of all other Small Farm reporters in NBA's assessment area and is based on 1997 Aggregate Small Farm Data only.

(****) Based on 1997 Aggregate Small Farm Data only.

(*****) In 1997, NBA significantly under reported the number of loans made to farms with gross annual revenues of \$1 million or less. That causes errors in these market share numbers. Using NBA's 1998 lending activity as a basis for estimates, we believe that in all of the assessment areas except Safford NBA's market share of loans to farms with revenues of \$1 million or less equals or exceeds its overall market share of small farm loans. NBA did not make any small farm loans in the Safford assessment area in 1997.

Table 12. Qualified Investments

QUALIFIED INVESTMENTS			State: Arizona	Evaluation Period: January 1, 1997, To March 31, 1999					
MSA/Assessment Areas:	Prior Period Investments*			Current Period Investments			Total Investments		
	#	\$ (000's)	%**	#	\$ (000's)	%**	#	\$ (000's)	% of Total \$'s
Full-Scope:									
Phoenix	5	2,726	76%	18	853	24%	23	\$3,579	14%
Tucson	0	0	0%	9	19	100%	9	\$19	< 1%
Yuma	0	0	0%	2	3,183	100%	2	\$3,183	12%
Safford	0	0	0%	1	18,302	100%	1	\$18,302	71%
Limited-Scope:									
Flagstaff	0	0	0%	1	4	100%	1	\$4	< 1%
NonMSA Areas	1	754	100%	0	0	\$0	1	\$754	3%

(*) "Prior Period Investments" means investments made in a previous evaluation period that remain outstanding.

(**) Percentage of the dollars invested in that MSA/Assessment Area that are prior period investments or current period investments.

Table 13. Distribution of Branch and ATM Delivery System

DISTRIBUTION OF BRANCH AND ATM DELIVERY SYSTEM				State: Arizona				Evaluation Period: January 1, 1997, To December 31, 1998									
MSA/Assessment Area:	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 the Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
Full-Scope:																	
Phoenix	47%	11*	32%	0%	36%	18%	36%	4	16%	0%	50%	25%	25%	5%	25%	40%	30%
Tucson	25%	3	9%	34%	33%	0%	33%	1	4%	0%	100%	0%	0%	4%	28%	36%	32%
Yuma	13%	6	18%	0%	50%	33%	17%	9	36%	0%	44%	44%	12%	1%	34%	37%	28%
Safford	2%	1	3%	0%	0%	100%	0%	1	4%	0%	0%	100%	0%	0%	0%	100%	0%
Limited-Scope:																	
Flagstaff	6%	4	12%	0%	0%	50%	50%	3	12%	0%	0%	33%	67%	14%	23%	38%	25%
NonMSA Areas	7%	9	26%	0%	11%	45%	44%	7	28%	0%	14%	57%	29%	0%	7%	57%	36%

(*) One branch located in a census tract designated NA