



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**November 15, 2010**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Sunbank, National Association  
Charter Number 24773**

**1607 West Bethany Home Road  
Phoenix, AZ 85015**

**Office of the Comptroller of the Currency**

**Kansas City South Field Office  
7101 College Boulevard, Suite 1600  
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**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, 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.

## 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 **Sunbank, National Association** (“Sunbank”) prepared by the Office of the Comptroller of the Currency, the institution’s supervisory agency. The agency rates the CRA performance of an institution consistent with the provisions set forth in 12 C.F.R. § Part 25 Appendix A.

### **INSTITUTION'S CRA RATING: This institution is rated “Needs to Improve.”**

The major factors that support this rating include:

- Sunbank’s overall distribution of loans to business of different sizes is not consistent with the primary credit need of the community. The bank’s percentage of commercial loans by revenues is significantly less than area demographic distribution of loans to business with annual revenues less than \$1 million.
- The bank’s overall geographic distribution of loans is excellent.
- The loan-to-deposit ratio is reasonable.
- The majority of Sunbank’s loans are in its assessment areas (AA)s.

## SCOPE OF EXAMINATION

The CRA Evaluation for small banks determines the bank’s record of meeting the credit needs of its AA(s) through its lending activities. The evaluation period for this review is June 1, 2007 to November 15, 2010. The CRA Performance Evaluation for Sunbank consisted of a review of both the bank’s commercial and consumer loan portfolios. At the bank’s request, we expanded the loan sampling process to include a review of consumer loans due to management’s shift in business focus in 2009 as its response to economic changes in the Phoenix market. Commercial loans are the bank’s primary product by dollar and represents 98 percent of the portfolio. Consumer loans are the bank’s primary product by number and represents 93 percent of the portfolio. We gave more weight to the bank’s commercial loan portfolio when evaluating lending performance for assigning the CRA rating. Consumer loans by dollar only represent a nominal volume at less than 1 percent of total loans.

For CRA evaluation purposes the Phoenix AA received the most weight followed by Tucson-Sahuariata, Lake Havasu City, Prescott-Cottonwood, Yuma MSA, and the Nogales-Santa Cruz AA(s) based upon loan and deposit volumes. Deposits in the Phoenix AA represent 41 percent of total deposit and loans represent 99 percent of total loans by dollar and 54 percent by number. The evaluation also included contacting local community groups in the AAs. Primary credit needs consist of small business loans and foreclosure prevention assistance. We conducted a data integrity review and found the data acceptable.

## **DESCRIPTION OF INSTITUTION**

Sunbank is a \$76 million intrastate community bank with its main office in Phoenix, Arizona. Dickinson Financial Corporation II ("DFC"), a \$4 billion multi-bank holding company headquartered in Kansas City, Missouri is the sole-owner of the bank's assets. In June 2007 DFC established Sunbank in Phoenix, Arizona. Sunbank's main office and branches are all in Wal-mart stores. The bank has 16 in-store Wal-mart offices located in 6 AA(s): Phoenix, Tucson-Sahuarita, Prescott-Cottonwood, Lake Havasu City, Yuma MSA, and Nogales-Santa Cruz AA. Sunbank closed its traditional office at Camelback in Phoenix during May 2010.

As of September 30, 2010, total loans represented 21 percent of total assets. The loan portfolio by dollar volume consisted of 41 percent commercial real estate, 32 percent construction and land development loans, 25 percent commercial and industrial loans, less than 1 percent residential real estate loans, and less than 1 percent consumer loans. The 2010 total reflects a 55 percent reduction in loans. In September 30, 2009 total loans represented 47 percent of \$74 million in total assets.

Sunbank's corporate strategy states that the bank's business focus is the origination and purchase of commercial and small business loans. In 2009, partially due to weaknesses in the economy and the credit market, DFC management made a decision to shift the business focus to consumer loans originated at in-store branches. The state of Arizona was one of the hardest economic impacted states. The state of Arizona posted the nation's second highest state foreclosure rate for first quarter 2009, with one in every 54 housing units receiving a foreclosure filing. Information from bank management indicates that state employment, housing, retail sales, and personal income were significantly reduced. From third quarter 2007 through the end of 2009, Arizona lost one in every nine jobs. Several layoffs occurred within the construction, manufacturing, and growth related support industries. The state unemployment rate increased from 3.7 percent in July 2007 to 9.7 percent in September 2010. In the AA(s) the unemployment percentage range from 8.9 to 27.2 for September 2010.

The general economic conditions of the Phoenix market in 2008 and 2009 created financial challenges for Sunbank. These economic challenges had a limited impact on the bank's lending abilities. In addition beginning fourth quarter 2009, the bank's in-house credit expertise was limited to consumer loans with the focus on in-store lending opportunities. Financial and legal impediments impacted the bank's ability to lend. Competition from other financial institutions is strong. This is the bank's first performance evaluation.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

Sunbank's AA(s) meets the requirements of the regulation and do not arbitrarily exclude low- or moderate-income geographies.

### **Phoenix AA**

The Phoenix AA is comprised of Maricopa County and 9 tracts in Pinal County. This is the bank's largest AA with a population of over 3.1 million, 1.4 million housing units, 1.2 million households, and 356 thousand businesses. This AA has 42 low-income, 185 moderate-income, 231 middle-income, 209 upper-income and 5 unclassified tracts. Approximately 36.55 percent of the low-income households in the Phoenix AA live below the poverty level. The AA contains the main office and five branches. The Christown Mall (Main Office), El Mirage, Apache Junction, and Glendale Manistee branches are located in moderate-income tracts. The Glendale branch is located in a middle-income tract and the Queen Creek branch is located in

an upper-income tract.

Sunbank faces strong competition from other financial institutions in this AA. Seventy-eight institutions with 959 offices hold deposits ranging from \$100 thousand to \$14 billion. Additional competition comes from credit unions, financial advisors, and internet-banking organizations that are not included in the FDIC Market Share report. Currently, Sunbank holds 0.07 percent of the AA's market share.

In assessing the bank's performance, we contacted one community outreach organization. The contacted stated that primary credit needs consist of small business and home mortgage loans. There is also a need for foreclosure prevention programs for low-and moderate-income borrowers and operating lines of credit for nonprofit organizations.

High tech, aerospace, and service industries make up the majority of the Phoenix economic base. Major employers are Banner Health, Honeywell, Wells Fargo and Target. The Phoenix AA unemployment rate is 8.9 percent for September 2010 while the state's overall rate is 9.7 percent.

### **Tucson-Sahuarita AA**

The Tucson-Sahuarita AA is comprised of 145 of the 198 census tracts in Pima County which includes the cities of Tucson and Green Valley, Arizona. Five percent of the tracts are low-income, 40 percent is moderate-income, 35 percent middle-income, and 20 percent upper-income. One branch is in a middle-income tract and one branch is in an upper-income tract. The population is at 643 thousand with 157 thousand families and 322 thousand housing units; 47% owner-occupied. The median housing cost is \$105 thousand. The updated 2009 median family income is \$57,500. Twenty percent of the families are at the moderate-income level and 23 percent are at the low-income level with 36 percent of the families living below the poverty level. The city of Sahuarita was officially incorporated in 1994. It is considered a growing community. The town population grew from 3 thousand in 1990 to 25 thousand in July 2010. Tucson is the county seat for Pima County with a population of 544 thousand. In 2009, Tucson ranked as the 32<sup>nd</sup> largest city in the United States and is the largest city in southern Arizona. City and private leadership focus for the economy is the advancement of technologies. Approximately 150 Tucson companies are involved in the design and manufacture of optics and optoelectronics systems, giving Tucson the nickname "Optics Valley."

Sunbank faces strong competition with the presence of 19 other financial institutions with offices in the AA. Deposits range from \$3 million to \$3.1 trillion. Additional competition comes from credit unions, financial advisors, and internet banks that are not included in the FDIC Market Share Report. Currently, Sunbank holds a nominal 0.03 percent of this AA's market share for deposits.

Major employment sectors include services at 46 percent and retail trade at 13 percent. Major employers are Farmer's Investment Company (FICO), Davis-Monthan Air Force Base, Texas Instruments, Raytheon Missile Systems, and the University of Arizona. The unemployment rate for Pima County is 8.8 percent for September 2010 while the state overall rate is 9.7 percent.

## **Lake Havasu City AA**

Lake Havasu City is the smallest AA and is located on the border of Arizona, Nevada, and California between two major interstates. The Lake Havasu AA is comprised of the Lake Havasu City-Kingman MSA. It has a population of 93 thousand, 67 thousand housing units, 39 thousand households, and 11 thousand business units. The AA consists of no low-income, 2 moderate-income, 14 middle-income and no upper-income tracts.

Sunbank faces strong competition with 13 financial institutions have 49 branches located in the AA. Deposits range from \$8 million to \$417 million. Additional competition comes from credit unions, financial advisors, and internet banks that are not included in the FDIC Market Share Report. Currently, Sunbank holds 0.35 percent of this AA's market share.

Major employment sectors include the service sector (business, professional and technology), retail trade, construction, health care, and government. Major employers are Lake Havasu Public Schools, City of Lake Havasu, Lake Havasu Hospital. The unemployment rate for Mohave County is 10.9 percent for September 2010 which is above the state average of 9.7 percent.

In assessing the bank's performance, we made contact with the Lake Havasu City Partnership for Economic Development. They work to expand the economic base of the community through attraction of new businesses, expansion and retention of existing businesses. The Partnership feels the key credit need is small business loans.

## **Prescott-Cottonwood AA**

Prescott and Cottonwood cities are located north of the Phoenix MSA. The Prescott-Cottonwood AA is comprised of Yavapai County in the Prescott MSA. The Prescott branch is located in an upper-income tract. The Cottonwood branch is located in a middle-income tract. This AA has a population of 164 thousand, 99 thousand housing units, 69 thousand households, and 23 thousand business units. The AA consists of 0 low-income, 1 moderate-income, 16 middle-income, 6 upper-income and 1 unclassified tract.

Sunbank has strong competition with 15 financial institutions having 61 offices located in Yavapai County. Deposits range from \$8 million to \$602 million. Additional competition comes from credit unions, financial advisors, and internet banks that are not included in the FDIC Market Share Report. Currently, Sunbank holds 0.28 percent of this AA's market share.

Major employment sectors include mining and construction, education and health services, government, leisure and hospitality and trade, transportation and utilities. Major employers are Ace Hardware, Camp Verde, Prescott and Mingus Union School Districts, Exsil, Inc, Yavapai County, Yavapai Gaming Agency, Yavapai Regional Medical Center, U.S. Forest Service, Veterans Administration Medical Center and the City of Prescott. Unemployment for the area is 9.9 percent for September 2010 with the state at 9.7 percent.

## **Yuma MSA**

The Yuma MSA is comprised of Yuma County. The location of Yuma is the lower corner of the state of Arizona bordering both Baja California and Mexico. It has a population of 160 thousand, 108 thousand housing units, 54 thousand households, and 9 thousand businesses. Approximately 31.63 percent of the moderate-income households in the Yuma MSA live below the poverty level. There are no low-income, 7 moderate-income, 16 middle-income, and 9 upper-income census tracts in this AA. The San Luis branch is located in a moderate-income tract. The Yuma, Yuma Foothills and Yuma Pacific branches are located in upper-income tracts.

Sunbank is one of 10 financial institutions in the AA. It has 0.76 percent of the AAs market share. There is competition from the other financial institutions, credit unions, financial advisors and internet banking organizations. The Deposit Market Share report only shows other financial institutions.

Major employment sectors include service, transportation logistics, high-end manufacturing aerospace and renewable energy. The primary employers in the area are Yuma School District, Yuma Hospital, Office of Tourism (borders Mexico), and two military bases (US Marine Corps Air Station and US Army Yuma Proving Ground). The unemployment rate in Yuma is the highest in the state and the second highest nationally at 27.2 percent for September 2010 which is almost three times that of the state rate of 9.7 percent

We made one community contact in the Yuma AA; they stated that loans to small businesses were a primary need.

## **Nogales-Santa Cruz AA**

The Nogales-Santa Cruz AA is comprised of Santa Cruz county. Nogales is the county seat. This AA has a population of 38 thousand, 15 thousand housing units and 12 thousand households units. There are no low-income, 3 moderate-income, 2 middle-income and 2 upper-income tracts. Approximately 23 percent of the moderate-income households in the Nogales-Santa Cruz AA live below the poverty level. The Tucson and Nogales branches are located in middle-income tracts.

Sunbank's competition in this AA is strong. There are 21 financial institutions with 196 offices with deposits ranging from \$8 million to \$2.5 billion. Additional competition comes from credit unions, financial advisors, and internet banking organizations that are not included in the FDIC Market Share report. Currently, Sunbank holds 0.09 percent of the AA's market share.

Major employment sectors include arts, tourism, manufacturing and high technology (bio-industry, aerospace, environmental technology, plastic, etc.). Major employers in the area are Allied Signal, Weiser Lock, 3M, Burr-Brown, Environmental Air Products, Inc., Kreuger Industries, Inc and Raytheon Missile Systems Company. As of September 2010 the unemployment rate for the area is 9.3 percent which is only slightly lower than the state average of 9.7 percent.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

Sunbank's quarterly average loan-to-deposit ("LTD") ratio is reasonable at 71 percent. We

calculated the bank's quarterly average LTD ratio from December 31, 2007 to September 30, 2010 using information from the Uniform Bank Performance Report. The average peer LTD ratio for the same time period is 85 percent. The highest peer ratio is 108 percent with the lowest at 56 percent.

### Lending in the Assessment Area(s)

The majority of Sunbank's loans are inside the AA(s). Approximately 78 percent by number and 78 percent by dollar are inside the AA(s). Review the table below for details.

Lending in the Assessment Area(s)										
Loan Type/ Assessment Area	Loans by Number					Loans by Dollar				
	Inside		Outside		Total	Inside		Outside		Total \$(000)
	#	%	#	%		\$(000)	%	\$(000)	%	
<b>Commercial</b>										
Phoenix AA	28	53%	25	47%	53	\$88,626	71%	\$37,003	29%	\$125,629
<b>Consumer</b>										
Phoenix AA	32	74%	11	26%	43	\$17,521	71%	\$7,063	29%	\$24,584
Tucson-Sahuarita AA	20	100%	0	0%	20	\$9,756	100%	\$0	0%	\$9,756
Lake Havasu City AA	20	87%	3	13%	23	\$14,513	89%	\$1,800	11%	\$16,313
Prescott-Cottonwood AA	28	88%	4	12%	32	\$14,386	90%	\$1,565	10%	\$15,951
Yuma MSA	26	81%	6	19%	32	\$19,420	90%	\$2,159	10%	\$21,579
Nogales-Santa Cruz AA	22	100%	0	0%	22	\$13,267	100%	\$0	0%	\$13,267
<b>Total</b>	148	86%	24	14%	172	\$88,863	88%	12,587	12%	\$101,450
<b>Combined Total</b>	176	78%	49	22%	225	\$177,489	78%	\$49,590	22%	\$227,079

Source: Loan Sample

### Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The bank's overall distribution of loans to business of different sizes and to borrowers of different income levels is poor. For commercial loans the bank's performance is poor. For consumer loans the bank's performance is excellent. Primary weight for the rating is given to the bank's commercial loan performance since this product represents 98 percent of the total lending portfolio. For the bank's Phoenix AA the penetration of commercial loans is poor. The bank's revenue distribution of commercial loans is not consistent with the primary credit need of the community. The bank's percentage of commercial loans by revenues is significantly less than area demographics distribution of loans to business with annual revenues less than \$1 million. Review the "Borrower Distribution of Loans to Businesses in the Phoenix AA" table below for details.

<b>Borrower Distribution of Loans to Businesses in the Phoenix AA</b>				
<b>Business Revenues</b>	<b>≤ \$1,000,000</b>	<b>&gt; \$1,000,000</b>	<b>Unavailable</b>	<b>Total</b>
<b>% of AA Businesses</b>	75.46%	3.96%	20.58%	100%
<b>% of Bank Loans in AA by #</b>	<b>21.43%</b>	71.43%	7.14%	100%
<b>% of Bank Loans in AA by \$</b>	<b>41.86%</b>	55.14%	3.00%	100%

Source: 2009 Business Geo-demographic Data; Loan Sample

An evaluation of the bank's loan dispersion for the remaining AA(s) is not meaningful. The bank did not originate commercial loans at the other offices in the Tucson-Sahuariata, Lake Havasu City, Prescott-Cottonwood, Yuma MSA, and the Nogales-Santa Cruz AA(s). Only the bank's Phoenix office had a commercial loan division. The remaining offices are in-store Wal-mart branches.

For consumer loans the bank's performance is excellent. The bank's performance in each AA: Phoenix, Tucson-Sahuariata, Lake Havasu City, Prescott-Cottonwood, Yuma MSA, and the Nogales-Santa Cruz AA(s) exceeds area demographic data for lending to both low-income and moderate-income borrowers. Review the 'Borrower Distribution of Consumer Loans in Each AA' table below for details.

<b>Borrower Distribution of Consumer Loans in Each AA</b>								
<b>Census Tract Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Assessment Area</b> HH=Households	% of AA HH	% of # Loans	% of AA HH	% of # Loans	% of AA HH	% of # Loans	% of AA HH	% of # Loans
<b>Phoenix</b>	21.07%	75.00%	17.58%	15.63%	20.07%	6.25%	41.28%	<b>3.12%</b>
<b>Tucson-Sahuariata</b>	25.53%	68.42%	18.17%	31.58%	19.84%	0.00%	36.46%	<b>0.00%</b>
<b>Lake Havasu City*</b>	17.62%	65.00%	18.22%	30.00%	20.83%	0.00%	43.32%	<b>0.00%</b>
<b>Prescott-Cottonwood</b>	18.05%	67.86%	16.07%	28.57%	19.49%	0.00%	46.39%	<b>3.57%</b>
<b>Yuma MSA</b>	20.79%	57.69%	17.63%	15.38%	20.80%	23.08%	40.78%	<b>3.85%</b>
<b>Nogales-Santa Cruz</b>	<b>24.63%</b>	<b>86.36%</b>	<b>17.04%</b>	<b>9.09%</b>	<b>18.43%</b>	<b>4.55%</b>	<b>39.90%</b>	<b>0.00%</b>

Source: 2009 Demographic Data; Loan Sample; \*No income info obtained =5% for Lake Havasu City so row does not add to 100%.

## Geographic Distribution of Loans

The bank's overall geographic distribution of loans for both commercial and consumer loans is excellent. For the Phoenix AA the bank's commercial loans dispersion exceeds area demographic data within the moderate-income tracts. The bank did not originate loans in the low-income tracts primarily due to limited lending opportunities and geographic barriers (for example major freeways, raw land, or large facilities). Review the "Geographic Distribution of Loans to Businesses in the Phoenix AA" table below for details.

Geographic Distribution of Loans to Businesses in the Phoenix AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
<b>Commercial*</b>	<b>4.57%</b>	<b>0.00%</b>	<b>21.48%</b>	<b>28.57%</b>	32.27%	21.48%	41.60%	50.00%

Source: 2009 Business Geo-demographic Data; \*N/A not shown equals 0.08% for % of AA Businesses; Loan Sample

An evaluation of the bank's geographic distribution of loans for the Tucson-Sahuarita, Lake Havasu City, Prescott-Cottonwood, Yuma MSA, and the Nogales-Santa Cruz AA(s) is not meaningful. The bank did not originate commercial loans at these offices. Only the bank's Phoenix office had a commercial loan division. The remaining offices are all in-store Wal-mart branches.

For consumer loans the bank's performance is excellent. The bank's performance in each AA: Phoenix, Tucson-Sahuarita, Prescott-Cottonwood, Yuma MSA, and the Nogales-Santa Cruz AA(s) exceeds area demographic data for lending in moderate-income borrowers. The bank's performance in moderate-income tracts for the Lake Havasu City AA is poor. The bank did not originate any loans in these tracts. The branch is located in a middle-income census tract. The bank's performance in the low-income tracts for the Phoenix AA is excellent. The bank's performance in the low-income tracts for the Tucson-Sahuarita AA is reasonable. Land geographic barriers exist limiting lending opportunities in these tracts. An analysis of the bank's performance in the Lake Havasu City, Prescott-Cottonwood, Yuma MSA, and the Nogales-Santa Cruz AA(s) is not meaningful since there are no low-income tracts in the AA(s). Review the 'Borrower Distribution of Consumer Loans in Each AA' table below for details.

Geographic Distribution of Consumer Loans in Each AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA HH	% of # Loans	% of AA HH	% of # Loans	% of AA HH	% of # Loans	% of AA HH	% of # Loans
<b>Assessment Area</b> HH=Households								
<b>Phoenix</b>	3.83%	9.38%	28.59%	37.50%	38.21%	43.75%	29.37%	<b>9.38%</b>
<b>Tucson-Sahuarita</b>	3.92%	0.00%	40.56%	73.68%	35.80%	0.00%	19.72%	<b>26.32%</b>
<b>Lake Havasu City</b>	0.00%	0.00%	8.92%	0.00%	78.47%	95.00%	12.62%	<b>5.00%</b>
<b>Prescott-Cottonwood</b>	0.00%	0.00%	3.07%	3.57%	77.06%	85.71%	19.87%	<b>10.71%</b>
<b>Yuma MSA</b>	0.00%	0.00%	17.90%	34.62%	57.19%	23.08%	24.90%	<b>42.31%</b>
<b>Nogales-Santa Cruz</b>	<b>0.00%</b>	<b>0.00%</b>	<b>42.20%</b>	<b>72.73%</b>	<b>39.81%</b>	<b>22.73%</b>	<b>17.99%</b>	<b>4.55%</b>

Source: 2009 Business Geo-demographic Data; Loan Sample

## **Responses to Complaints**

Sunbank has not received any complaints regarding its CRA performance during this evaluation period.

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

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