



Public Disclosure

July 6, 1999

Community Reinvestment Act Performance Evaluation

**Northern Trust Bank of Arizona, N.A.
Charter Number: 17949**

**2398 E. Camelback Road, Suite 400
Phoenix, Arizona 85016**

**Office of the Comptroller of the Currency
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Chicago, Illinois 60605**

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 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 **Northern Trust Bank of Arizona, N.A. (NTB)** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **July 6, 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.

This institution elected to be evaluated under the strategic plan option. The plan, approved by the agency, sets forth goals and objectives to meet the needs of a bank's assessment area.

Institution's CRA Rating - This institution is rated "SATISFACTORY"

NTB's three-year Strategic Plan, effective January 1, 1998, outlines measurable CRA goals that must be substantially met to achieve a "Satisfactory" rating. We rated NTB's performance *Satisfactory* because it substantially met or exceeded its goals for 1998.

In the context of this Performance Evaluation, we address three primary rating factors: lending, community development (CD) investments, and CD service goals. We addressed lending goals in aggregate for the entire market and also within each specific assessment area. We addressed CD investments and service goals only in aggregate.

Description of Institution

NTB is a nationally chartered bank, with eight offices located in the Phoenix and Tucson metro areas. NTB is a subsidiary of the Northern Trust Corporation (NTC), a Chicago-based multibank holding company. The NTC established the Northern Trust Company of Arizona in 1974 as a trust and investment management services subsidiary. In November 1986, the NTC acquired Phoenix National Bank and merged it with the Northern Trust Company of Arizona. The NTC named the resulting bank the Northern Trust Bank of Arizona, N.A.

As a trust bank, NTB's core strategy is to seek current or prospective trust clients or trust referral sources. Therefore, the bank does not seek to offer transaction-oriented loan or deposit services, unless there is an existing relationship with a client. The bank locates its offices close to its trust client base and referral sources, usually in an upscale financial center or near a retirement area.

As of March 31, 1999, NTB had trust assets under administration of \$4.7 billion and banking assets of \$621 million. With total loans of \$529 million, the bank's loan portfolio mix is centered in residential real estate (76%), commercial loans (13%) and consumer loans (4%).

The most recent CRA evaluation of NTB was conducted in June 1997 and rated the bank's CRA performance "Outstanding."

Conclusions

Aggregate Lending Goals

C NTB exceeded its CRA Strategic Plan aggregate lending goals for 1998.

The following table compares lending goals to actual performance:

Aggregate Lending Goals

Loan Type	1998 Strategic Plan Goal		1998 Actual Performance	
	#	\$(000)	#	\$(000)
Affordable Mortgage Loans*	45	2,912	69	4,729
Small Business Loans	135	25,242	162	24,776
CD Loans	6	2,000	7	3,752

Aggregate Loan Goals	186	30,154	238	33,257
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** Denotes an internally developed flexible mortgage product available to low-and moderate-income (LMI) borrowers or in LMI tracts. The program requires no private mortgage insurance or bank fees, 50% off appraisal fees, a free home inspection, and higher than standard qualifying debt-to-income ratios.*

In 1998, NTB exceeded the number and dollar amount of its aggregate loan goals by 28% and 11%, respectively. The primary factor contributing to this performance was an increase in affordable mortgage loans, with goals exceeded by 53% in number. Total mortgage originations rose by 74% in number from 1997 to 1998. The increase in mortgage loan activity was triggered by a strong Arizona economy, strong new housing construction, and a low interest rate environment.

NTB exceeded its goal for the number of aggregate small business loans by 20%. The total number of small business loans originated by the bank was higher than projected, primarily due to increased lending in the Metro Tucson assessment area. The dollar volume of small business loans was lower than expected in aggregate and within the Metro Phoenix assessment area. NTB management reported that dollar volume differences were due to a smaller than anticipated average loan size.

The number of CD loans originated in 1998 exceeded plan goals by one loan. NTB primarily targeted its CD loan originations at affordable housing needs in Tucson and Phoenix, Arizona. The dollar volume of CD loans was positively impacted by one large origination in the Metro Phoenix assessment area.

Aggregate CD Investment Goals

C NTB exceeded its CRA Strategic Plan aggregate CD investment goals for 1998.

NTB's two-tiered CRA investment strategy includes retaining certain existing long term investments and purchasing a certain volume of new investments each year. The goals were formulated at a bank-wide level, with no specific investment allocation by assessment area.

The following table compares aggregate investment goals to actual performance:

Aggregate CD Investment Goals

Investment Type	1998 Strategic Plan Goal	1998 Actual Performance
	\$(000)	\$(000)
Short Term (new this year)	125	223*
Long Term	4,200	3,700

Total	4,325	3,873
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** Includes \$50,000 legally binding capital commitment for an affordable housing loan fund.*

NTB exceeded its short term CD investment goals through vehicles such as grants for community development purposes and a certificate of deposit in a minority-owned credit union that primarily serves the lending needs of LMI individuals. Long term investments included \$1.3 million in three school district bonds that primarily benefit LMI students, and an investment in affordable housing tax credits by NTB's affiliate Norlease, Inc. The dollar volume of long term investments was less than projected, due to the exclusion of a \$500,000 school district bond that did not meet the CRA definition of community development.

Aggregate CD Service Goals

C NTB exceeded its CRA Strategic Plan aggregate CD service goals for 1998.

NTB formulated its CD service goals on a bank-wide level, with no specific goal allocation by assessment area. The following table compares CD service goals to actual performance:

Aggregate CD Service Goals

Type of Service	1998 Strategic Plan Goal	1998 Actual Performance
Educational Seminars	9 seminars	15 seminars
Technical Assistance	385 hours	700 hours

NTB exceeded technical service goals by providing approximately 700 hours of qualifying assistance to organizations involved in affordable housing, economic development, and small businesses. These hours included time spent providing financial expertise on numerous community development-related projects. Additionally, bank employees conducted 15 seminars on basic financial services and affordable home ownership. NTB targeted the meetings to LMI individuals and small business groups.

Fair Lending Review

We also performed a concurrent fair lending examination of NTB. We used OCC fair lending procedures and focused on a sample of Hispanic and White home mortgage applications. We reviewed all applications originated between January 1, 1998 and December 31, 1998.

Performance under the fair lending requirements is satisfactory. We found no evidence of discriminatory lending practices.

Metropolitan (Metro) Phoenix Assessment Area

Description of Institution's Operations in the Metro Phoenix Assessment Area

The Metro Phoenix assessment area is NTB's primary market. Six of the bank's eight offices, and four of its six ATMs, are in this assessment area. As trust services are NTB's market niche and a primary source of revenue, all bank offices are in middle- and upper-income areas.

NTB is the eighth largest commercial bank in the Phoenix area, holding approximately 1.5% of the total commercial bank deposits in the MSA. Local banking competition is aggressive and includes numerous commercial banks, thrifts, credit unions, and other financial service providers.

Description of the Metro Phoenix Assessment Area

NTB's Metro Phoenix assessment area is located within, but does not encompass the entire Phoenix-Mesa Metropolitan Statistical Area (MSA). It is defined as the area within the following city and town limit boundaries: El Mirage, Glendale, Guadalupe, Luke Air Force Base, Mesa, Paradise Valley, Peoria, Phoenix, Scottsdale, Sun City, Sun City West, Surprise, Tempe, and Young Town. This assessment area includes 409 of the 490 census tracts in the Phoenix-Mesa MSA, the largest in the state. The bank did not arbitrarily exclude LMI census tracts.

The local economy is strong and the Phoenix area continues to be one of the fastest growing metro areas in the United States. Rapid population growth, increasing business diversification, and declining unemployment characterized the economic conditions for the evaluation period. State unemployment rates ranged from 2.5% to 3% in 1998, reflecting a full employment level.

We made one new community contact and reviewed four recent contacts with Phoenix area government and affordable housing organizations. We determined that credit needs in the assessment area include affordable housing and small business loans. Since home prices are increasing rapidly, the availability of affordable housing is a key concern.

The following chart highlights pertinent demographic information:

DEMOGRAPHIC INFORMATION FOR THE METRO PHOENIX ASSESSMENT AREA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Geographies (CT/BNAs)	409	6%	23%	39%	31%	1%
Population by Geography	1,883,907	4%	25%	41%	30%	<1%
Owner Occ. Housing by Geography	454,081	2%	19%	44%	35%	0
Businesses by Geography	76,948	6%	26%	36%	32%	<1%
Farms by Geography	1,275	3%	19%	40%	38%	0
Family Distribution by Income Level	489,724	19%	18%	23%	40%	<1%
Median Family Income		\$35,425	Median Housing Value		\$86,698	
HUD Adjusted Median Family Income for 1998		\$48,300	Unemployment Rate (1998)		\$3.06%	
Households Below the Poverty Level		10.91%				

While preparing its CRA Strategic Plan, NTB developed a comprehensive analysis of the Metro Phoenix assessment area. Refer to the bank's CRA Public File for more information.

Conclusions on Performance in the Metro Phoenix Assessment Area

Metro Phoenix Lending Goals

C NTB substantially met 1998 lending goals for the Metro Phoenix assessment area.

Metro Phoenix Assessment Area Lending Goals

Loan Type	1998 Strategic Plan Goal		1998 Actual Performance	
	#	\$(000)	#	\$(000)
Affordable Mortgage Loans	36	2,419	57	3,966
Small Business Loans	93	19,745	95	16,192

CD Loans	3	1,000	4	3,512
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NTB exceeded the number and dollar volume of its affordable mortgage lending goals by 58% and 64%, respectively. The bank substantially met its small business lending goals; however, the dollar volume of small business loans was less than projected. Management attributed the difference to a smaller than anticipated average loan size. The number of CD loans exceeded goals by one loan. Examples of CD loans include the purchase of an affordable mobile home park, purchase and rehabilitation of small multi-family housing units that provide affordable housing to LMI individuals, and finance of a community center that primarily serves LMI youths.

Metro Phoenix Investment Goals and Service Test

The bank did not set specific goals for the Metro Phoenix assessment area. We describe NTB’s aggregate investment and service test performance in the *Conclusions* section of this Performance Evaluation.

Metropolitan (Metro) Tucson Assessment Area

Summary of Institution’s Operations in the Metro Tucson Assessment Area

NTB’s Metro Tucson assessment area is the smaller of its two areas. The bank operates two full service offices and two ATMs in Metro Tucson. The bank’s strategic focus in this area is similar to that of Phoenix. The assessment area is located within Pima County in southeastern Arizona.

NTB is the 11th largest commercial bank in the Tucson area, holding approximately 1.6% of the total commercial bank deposits 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.

Description of the Metro Tucson Assessment Area

The Metro Tucson assessment area is located within, but does not encompass the entire Tucson MSA. It is defined as both the incorporated and unincorporated areas of Metropolitan Tucson and consists of 102 of the 115 census tracts in Pima County. The bank did not arbitrarily exclude LMI census tracts.

The following chart highlights pertinent demographic information:

DEMOGRAPHIC INFORMATION FOR THE METRO TUCSON ASSESSMENT AREA						
DEMOGRAPHIC CHARACTERISTICS	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Geographies (CT/BNA-Block # Areas)	102	8%	29%	33%	30%	0
Population by Geography	601,107	4%	29%	33%	34%	0
Owner Occup. Housing by Geography	138,705	2%	20%	35%	43%	0
Businesses by Geography	23,240	8%	28%	32%	32%	0
Farms by Geography	474	5%	20%	34%	41%	0
Family Distribution by Income Level	151,832	20%	18%	22%	40%	0

Median Family Income	\$30,985	Median Housing Value	\$79,781
HUD Adjusted Median Family Income for 1998	\$41,700	Unemployment Rate (1998)	3.56%
Households Below the Poverty Level	15.55%		

The local economy is similar to the economy of Phoenix in that growth that has been spurred by increases in population and growth in the high tech industry. We reviewed three recent community contacts made with Tucson consumer, affordable housing, and government organizations. Similar to the Phoenix area, these contacts identified affordable housing and small business loans as the primary credit needs for LMI populations.

While preparing its CRA Strategic Plan, NTB developed a comprehensive analysis of the Metro Tucson assessment area. Refer to the bank's CRA Public File for more information.

Conclusions on Performance in the Metro Tucson Assessment Area

Metro Tucson Lending Goals

C NTB substantially met its 1998 lending goals for the Metro Tucson assessment area.

Metro Tucson Assessment Area Lending Goals

Loan Type	1998 Strategic Plan Goal		1998 Actual Performance	
	#	\$(000)	#	\$(000)
Affordable Mortgage Loans	9	493	12	763
Small Business Loans	42	5,497	67	8,584
CD Loans	3	1,000	3	240

NTB exceeded its affordable mortgage goals by three loans. The bank exceeded the number and dollar amount of its small business lending goals. The number of CD loans substantially met goals; however, the dollar volume of these loans fell short of projections. CD loans in the Metro Tucson assessment area consisted of three small reverse mortgage loans targeted to very low-income elderly individuals.

Metro Tucson Investment Goals and Service Test

The bank did not set specific goals for the Metro Tucson assessment area. We describe NTB's

aggregate investment and service test performance in the *Conclusions* section of this Performance Evaluation.

Appendix A – Scope of Examination

This performance evaluation reflects full-scope examinations of the bank’s two assessment areas, utilizing OCC examination procedures for CRA Strategic Plans. The time period covered in this review included activities during 1998. The evaluation period encompassed the first year of NTB’s three year Strategic Plan.

Scope of Examination

Time Period Reviewed: January 1, 1998 to December 31, 1998		
<i>Financial Institution</i>		<i>Products Reviewed</i>
Northern Trust, AZ		Small business loans, Affordable Mortgage Loans, CD Loans, CD Investments, and CD Services
<i>Affiliate(s)</i>	<i>Affiliate relationship</i>	<i>Products reviewed</i>
Norlease, Inc.	Subsidiary of Northern Trust Company - Charter #2016	CD Investments
List of Assessment Areas and Type of Examination		
<i>Assessment Area</i>	<i>Type of Exam</i>	<i>Other Information</i>
Metro Phoenix	Full-scope	MSA
Metro Tucson	Full-Scope	MSA