



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 6, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Goldwater Bank, National Association
Charter Number 24671

7135 East Camelback Road, Suite I-201
Scottsdale, Arizona 85251

Office of the Comptroller of the Currency

Phoenix Field Office
9633 South 48th Street, Suite 265
Phoenix, Arizona 85044

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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

Goldwater Bank, National Association's (GBNA) lending performance reflects a satisfactory response to community credit needs. This is based on the following factors:

- The bank's loan-to-deposit (LTD) ratio is less than reasonable given the bank's size, financial condition, and the credit needs of the assessment area (AA).
- A substantial majority of the loans were made inside the bank's AA.
- Lending activities represent a reasonable penetration to individuals of different incomes.
- The geographic distribution of loans represents an excellent dispersion throughout census tracts (CTs) of different income levels in the bank's AA.

SCOPE OF EXAMINATION

The examination of GBNA consisted of a full-scope review of the bank's single AA. The lending test covered January 1, 2009 through September 30, 2011, referred to in this report as the evaluation period. We identified consumer loans as the bank's primary loan product based on the number and dollar amount of loans originated during the evaluation period. There were no affiliate loans to review.

| Loan Originations for Evaluation Period | % of Dollar Amount of Loans | % of Number of Loans |
|---|------------------------------------|-----------------------------|
| Consumer Loan Originations as a % of Total Originations | 39.06% | 91.78% |

Source: Loan originations for evaluation period.

We sampled 20 loans from the bank's primary loan product. The data from the original consumer loan sample was used to calculate the inside/outside AA ratio. To perform other lending tests, we eliminated loans outside the AA from the original sample and added enough additional loans to provide a sample of 20 consumer loans from inside the AA. The sample is representative of the bank's business strategy.

DESCRIPTION OF INSTITUTION

GBNA is a community bank headquartered in Scottsdale, Arizona. As of September 30, 2011, GBNA had \$162.7 million in assets, total loans of \$94.7 million, and total deposits of \$155.8 million. GBNA operates a main office in Scottsdale, located in an upper-income CT, in addition to owning and operating two full-service ATMs. The bank has neither opened nor closed any branch offices during the evaluation period. However, on June 1, 2009, the bank acquired an 80% membership interest in Affiliated Financial

Group, LLC (AFG), in order to expand their residential real estate lending into selling residential loans into the secondary market. AFG was an operating subsidiary of GBNA until July 21, 2011, when it became a division of the bank.

The bank's primary lending focus currently is on consumer lending. In terms of dollars, loans to individuals represent 79% of the bank's total loan portfolio as of September 30, 2011.

There are no financial or legal impediments that hinder the bank's ability to help meet the credit needs of the AA. This CRA review is the first for GBNA.

Additional details about the bank may be found in its Public File, maintained at the main office of the bank.

DESCRIPTION OF ASSESSMENT AREA

GBNA has designated Maricopa County, Arizona, which is part of the Phoenix-Mesa-Glendale Metropolitan Statistical Area (MSA) as its AA. There are a total of 663 CTs in the AA; 40 low-, 181 moderate-, 230 middle-, and 208 upper-income CTs. In addition, 4 CTs do not report data and are listed as unknown. The AA meets the legal requirements of the regulation and does not arbitrarily exclude low- or moderate-income (LMI) geographies. For additional details on the CTs and income designations, see the bank's Public File.

According to the Arizona Department of Commerce, Maricopa County is one of the largest counties in the country stretching 100 miles in diameter and covering a total of 9,200 square miles. Maricopa County encompasses the city of Phoenix, which is the county seat and also the state's capital, as well as several smaller cities, towns, and residential communities including Mesa, Scottsdale, Avondale, Buckeye, Chandler, Gila Bend, Gilbert, Glendale, Peoria, and Tempe. In addition, several Native American communities are located in the county, including the Fort McDowell Yavapai Nation and the Salt River Pima-Maricopa Indian Community. The U.S. Bureau of Land Management is the county's largest landholder with 28 percent, an additional 16 percent is owned publicly, while the U.S. Forest Service and the State of Arizona each hold 11 percent. The Indian Reservations own 5 percent combined. The remaining 29 percent is owned by individuals and corporations.

Maricopa County is one of the fastest growing metropolitan areas in the nation, and is the fourth most populous county in the United States. More than half the state's population resides in Maricopa County. As of December 2010, the population was estimated at over 4.3 million people. The largest business sectors for Maricopa County are Retail Trade, Professional & Business Services, and State & Local Government. Maricopa County comprises approximately 64 percent of the labor force in the State of Arizona.

GBNA is in an AA with a diversified employment base, but local economic conditions

have deteriorated tremendously in the past several years. Unemployment in the MSA has been on the rise over the past several years with rapid increases in the overall unemployment rate starting in May of 2008. The current MSA unemployment rate, according to the March 2011 United States Department of Labor Bureau of Labor Statistics information, is approximately 8.7 percent. All industries experienced job losses over the past several years, with the exception of the Education & Health Services area which showed a slight increase. Construction suffered the largest employment losses due to the sharp drop-off in residential construction.

Competition for financial services is strong in Maricopa County. The June 30, 2011, FDIC Deposit Market Share Report shows 61 financial institutions, with a combined total of 885 branches, competed for over \$60 billion of insured deposits. Wells Fargo, JPMorgan Chase, and Bank of America collectively hold 71 percent of the deposit market share, representing \$43 billion of insured deposits, and a combined total of 491 branches. GBNA is ranked 24th with a 0.29 percent share of the marketplace and does not operate outside the area. Almost three quarters of the competitors have access to other loans and deposits outside the local market.

There are several similarly situated banks to GBNA in the marketplace. The similarities are identified in terms of size, geographic presence, lines of business, and age of the institution as GBNA is considered a De Novo bank. A De Novo bank is a bank that has been established within the last three to five years. These institutions include small community banks opened in 2006 and 2007 and were used to evaluate the bank's LTD ratio.

During our evaluation of GBNA, we contacted a community organization to determine the credit and financial needs and opportunities in the AA. The contact was a non-profit organization that offers pre-purchase housing counseling and education to first-time homebuyers, and foreclosure intervention counseling. The community contact is concerned about loans available for LMI individuals and families and the need for funding for housing counseling and foreclosure counseling activities. Overall, the contact described all banks in the area as doing an adequate job of meeting area credit needs.

Maps and additional information about the bank's AA may be found in the bank's Public File maintained at the main office of the bank.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

GBNA's average LTD ratio is less than reasonable given the bank's size, financial condition, and credit needs of the AA. As of September 30, 2011, the bank's quarterly average LTD for the last 18 quarters since opening was 68 percent, with a low of 40 percent and a high of 126 percent.

Based on the bank's identification of three direct competitors, their LTD ratio is lower

than the average. The results are summarized in the following table:

| Bank | Average Quarterly Loan-to-Deposit Ratio (4/2007 - 9/2011) |
|-------------------------------|---|
| Goldwater Bank, NA | 68% |
| Bank A | 65% |
| Bank B | 104% |
| Bank C | 82% |
| Average of Direct Competitors | 84% |

Source: Uniform Bank Performance Report.

A number of circumstances placed downward pressure on the bank’s LTD ratio. These include external factors such as the current economic conditions and a high level of competition, which affected all banks in the AA. In addition, the bank has been under a formal Consent Order since May 11, 2010. As a result, the bank's capacity to lend is constrained due to the limitations placed on the bank, including negative public image and lending limit limitations.

Lending in Assessment Area

We calculated the percentage of both number and dollar amount of our original sample of 20 consumer loans made inside the bank’s AA. With 85 percent of the number and 88 percent of the dollars, GBNA’s inside/outside ratio reflects that a substantial majority of the primary loan product originated within its AA. This exceeds the standard for satisfactory performance.

| Lending in the Maricopa County AA | | | | | | | | | | |
|--|-----------------|-----------|---------|----|-------|-------------------------|-----------|---------|----|-------|
| Loan Type | Number of Loans | | | | | Dollars of Loans (000s) | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Consumer | 17 | 85 | 3 | 15 | 20 | 323 | 88 | 43 | 12 | 366 |

Source: Loan originations for the evaluation period.

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

Lending to Borrowers of Different Incomes

The distribution of consumer loans among individuals of different incomes given the demographics of the AA is reasonable. Consumer loans are held to a higher performance standard than commercial or residential real estate loans because they are generally easier to obtain, and easier for the bank to make compared to other loan types. The bank’s penetration of low-income households at 4 percent is very poor, significantly below the AA demographics, and does not meet the standard. This is somewhat mitigated by the fact that 10 percent of the AA population is below the poverty level, which would make even consumer loans difficult to obtain. However, the bank’s penetration in moderate-income households is 20 percent and slightly higher than the AA demographics, which meets the standard of satisfactory performance and

reasonable penetration.

| Borrower Distribution of Consumer Loans in the Maricopa County AA | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer Loans | 21 | 4 | 17 | 20 | 20 | 32 | 42 | 44 |

Source: Loan sample; U.S. Census data.

Geographic Distribution of Loans

The bank’s consumer lending activity in low-income CTs reflects a reasonable dispersion because at 4, the percentage of number of loans meets the percentage of households. However, the bank’s consumer lending activity in moderate-income CTs reflects an excellent dispersion throughout the AA. The percentage of households is 28, but the percentage of number of loans originated significantly exceeds this at 53.

| Geographic Distribution of Consumer Loans in the Maricopa County AA | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer Loans | 4 | 4 | 28 | 53 | 39 | 16 | 29 | 27 |

Source: Loan sample and U.S. Census data.

The geographic distribution of loans to the low-income CTs meets the demographic standard, while the bank’s performance in lending to moderate-income geographies significantly exceeds the demographic standard, reflecting excellent dispersion overall.

Responses to Complaints

No complaints have been received by the bank or the OCC relating to the bank’s 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.