



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

Public Disclosure

January 4, 1999

Community Reinvestment Act Performance Evaluation

**FIRST INTERSTATE BANK OF ALASKA, N.A.
Charter No. 21990**

*3301 C Street
Anchorage, Alaska*

**Office of the Comptroller of the Currency
Seattle Field Office
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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.

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 **First Interstate Bank of Alaska, N.A.** prepared by the Office of the Comptroller of the Currency, as of **January 4, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated "Satisfactory."

- Management's focus is on commercial lending. Commercial loan originations reflect reasonable penetration of businesses of different sizes including very small businesses. The geographic dispersion of commercial loans is reasonable and includes originations in moderate-income neighborhoods.
- ▶ The dispersion of consumer loans is not strong but reflects the bank's emphasis on small business lending.
- Almost all loans are originated within the assessment area.
- The bank's loan-to-deposit ratio is reasonable.

DESCRIPTION OF INSTITUTION

The bank operates three locations, all within the city of Anchorage (3301 C Street, 716 West 4th Avenue, and 1000 O'Malley Road). Loan and deposit services are offered at each location. Lobby hours are 10:00 a.m. to 6:00 p.m. Monday through Friday at the C Street and O'Malley Road offices and 9:00 a.m. to 5:00 p.m. at the 4th Avenue location. The bank offers extended drive through hours at each location. In addition, each location operates a 24-hour automated teller machine. The bank's total assets as of December 31, 1998, were \$54 million and net loans represented approximately 45% of total assets.

The bank was formerly a wholly owned subsidiary of First Interstate Bancorp, Los Angeles, California. First Interstate Bancorp was purchased by Wells Fargo Bank, N.A., San Francisco, California, in April 1996. Wells Fargo Bank, N.A. subsequently sold the Anchorage branches to a group of local investors in December 1996.

The bank has only a one percent deposit share in Anchorage. Primary competition includes three larger banks headquartered in Anchorage, branches of a regional bank, one large federal credit union, as well as several mortgage and finance companies. The bank's loan portfolio is largely a reflection of lending activity under the previous ownership with a large percentage of the portfolio consisting of residential real estate and consumer loans.

Since the change in ownership, management has shifted the focus of the bank to small business lending. Management feels the bank's strengths as a locally owned, high personal service bank are better suited to serving small businesses. The market for residential mortgage and consumer credit is dominated by much larger institutions which have infrastructures to handle the large volume of activity required to effectively compete in these markets. As a result, the bank's presence in the consumer market is small.

The bank offers a wide variety of credit and deposit services including various types of commercial loans, consumer installment loans, home equity loans, personal lines of credit, and credit cards. The bank stopped offering single-family residential purchase loans after the change in ownership, but plans to begin accepting purchase applications for a local mortgage company.

Table 1 reflects the bank's portfolio as of December 31, 1998, while Table 2 lists loan originations from July 1, 1997, to December 31, 1998.

Table 1

FIRST INTERSTATE BANK OF ALASKA LOAN PORTFOLIO (As of December 31, 1998)		
	Dollar \$(000's)	%
Loans Secured by 1-4 Family Residential Real Estate	10,252	42%
Loans Secured by First Liens on Residential Properties	4,090	
Loans Secured by Second Liens on Residential Properties	5,313	
Revolving Lines Secured by Residential Properties	849	
Other Consumer Loans	7,111	29%
Single Payment and Installment Consumer Loans	6,202	
Credit Cards	909	
Commercial Loans	6,880	29%
Commercial and Industrial Loans	2,626	
Acceptances of Other Banks	1,994	
Loans Secured by Commercial Properties	2,260	
Total	24,243	100%

Table 2

LOAN ORIGINATIONS FROM JULY 1, 1997, TO DECEMBER 31, 1998				
Loan Type	Number	%	Dollar \$(000's)	%
Commercial	44	37%	4,884	70%
Consumer loans secured by residential property	23	19%	1,038	15%
Other consumer loans	53	44%	1,085	15%
Total	120	100%	7,007	100%

As noted above, the bank's portfolio largely reflects lending patterns under previous ownership, with heavy emphasis on residential real estate and consumer lending. Table 2 reflects management's current emphasis on commercial lending. Commercial loan originations are by far the most significant category by dollar volume and a very significant product by number. Due to the bank's current

lending patterns, and management's plans to continue to emphasize small business lending, we consider commercial lending to be the bank's primary product line.

The bank received a "Satisfactory" rating during the prior CRA examination dated November 1, 1994. This is the first CRA examination under the bank's new ownership. There are no legal or financial impediments which preclude the bank from its obligation under the CRA.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) is the Anchorage Metropolitan Statistical (MSA) area. The AA does not arbitrarily exclude any low- or moderate-income areas and meets the legal requirements of the CRA.

Anchorage is located in the south central section of Alaska along the coast of the Cook Inlet and is the largest city in the state. The AA population according to 1990 census data was 226,338. Alaska Department of Community and Regional Affairs estimated the population as of December 1997 at 258,782. The 1990 Census lists 57,519 families within the AA. The 1998 MSA median family income according to the U.S. Department of Housing and Urban Development (HUD) is \$59,200. The 1990 census reported that 6% of households were below poverty level (30% of the median-family income).

Anchorage is the center of commerce for the state. Major industries include oil and gas, finance, real estate, communications, transportation, and government agencies. The fishing industry is not serviced from Anchorage. Tourism and other seasonal factors contribute to a fluctuating, although low, unemployment rate.

The Comptroller of the Currency examiners recently met with several representatives of organizations serving the bank's community. These groups represented housing, small business, and civic interests. These groups indicated a need for loans to small businesses and for affordable housing. There is also a very basic need to provide technical assistance and a lending infrastructure for very small and startup businesses. Technical assistance is needed in the form of credit education and assistance in applying for business credit. Table 3 summarizes demographic information for the Anchorage MSA.

Table 3

DEMOGRAPHIC INFORMATION ANCHORAGE MSA #0380										
Income Category	By Income Level of the Census Tract								Families by Income Level	
	Census Tracts		Population		Businesses		Housing Units			
	#	%	#	%	#	%	#	%	#	%
Low	3	5%	16,956	7%	616	6%	6,065	6%	11,509	20%
Moderate	11	20%	44,158	20%	2,903	29%	21,273	23%	10,349	18%
Middle	25	46%	95,985	42%	4,138	42%	41,343	44%	12,850	22%
Upper	16	29%	69,239	31%	2,236	23%	25,472	27%	22,811	40%
Totals	55	100%	226,338	100%	9,893	100%	94,153	100%	57,519	100%
Median Family Income: \$50,108 HUD Adjusted MFI 1998: \$59,200					Median Housing Value: \$98,375 Unemployment Rate (September 30, 1998): 3.8%					

Source: 1990 U.S. Census and 1998 HUD updated MFI. Unemployment rate is from the Alaska Department of Labor.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

This evaluation of the bank's performance under the CRA concentrates on the bank's lending activity between July 1, 1997, and December 31, 1998. There are two primary reasons for the limited time frame.

First, the change in ownership in December 1996 significantly impacted the characteristics of the bank. The bank had been a part of very large banking organizations and was subject to a certain degree of centralization in policy making functions. The bank is now locally owned and all policy decisions are made locally. More significantly, the bank no longer has the large infrastructure which helped it compete in the residential mortgage and consumer markets and has shifted its lending emphasis towards small business lending. This is a niche in which management feels the bank can successfully compete.

The second reason is due to the limited availability of records during the bank's conversion to a new data processing source after the change in control. Bank records prior to July 1, 1997, did not contain sufficient information to efficiently complete this review.

We sampled three general loan product lines to assess the bank's lending performance. All samples were taken from originations between July 1, 1997, and December 31, 1998. We considered commercial loans to be the bank's primary product line due to the current competitive strategy of

management, and the relatively large volume of originations during our sampling period. As the bank’s primary product, most emphasis was placed on our conclusions as they related to the bank’s record of commercial lending. Our sample of commercial loans included 45% of originations by number and 43% by dollar volume.

We also sampled the bank’s consumer loan portfolio, segregating the portfolio between consumer loans secured by residential real estate and all other consumer loans. Our sample of consumer loans secured by residential real estate represented 61% of originations by number and 50% by dollar volume. Our sample of other consumer loans represented 36% of originations by number and 46% by dollar volume.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES

Commercial loan originations within the bank’s AA reasonably penetrate businesses of various sizes including very small businesses. Our sample of commercial loans reflects reasonable dispersion of loans to businesses among four revenue categories.

Table 4

COMMERCIAL LOANS WITHIN THE ASSESSMENT AREA		
Gross Revenue	Percent by #	Percent by \$ Volume
0-\$499,999	28%	31%
\$500,000-\$999,999	11%	4%
\$1,000,000-\$2,999,999	39%	45%
More than\$3,000,000	22%	20%
Total	100%	100%

Table 5 details the lending performance in the two remaining product lines. The percentage of families in each income category within the bank’s AA is shown in the top row of the table. The numbers in the bottom portion of the table represent the percentage of loans originated by both number and dollar amount of loans within each category.

Table 5

LENDING DISTRIBUTION BY DOLLAR AMOUNT AND NUMBER OF LOANS												
	Upper		40 %	Middle		22 %	Moderate		18 %	Low		20 %
	#	\$		#	\$		#	\$		#	\$	
Other Consumer Loans	53%	84%		18%	9%		11%	3%		18%	4%	
Consumer Loans Secured by Residential Real Estate	61%	61%		31%	35%		8%	4%		0%	0%	

Consumer loans do penetrate low- and moderate-income families, however, the above table reflects that lending is skewed towards upper-income borrowers. This is partly explained by the location of the bank’s branches. The bank does not have any branches in low- or moderate-income census tracts.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of commercial lending, is reasonable; however, penetration of the bank’s consumer products in low- and moderate-income areas is weak. This reflects the bank’s emphasis on small business lending. Tables 6 through 8 reflect the geographic distribution of loans based on the income level of census tracts within the bank’s assessment area.

Table 6

COMMERCIAL LOANS				
Income Levels	% of Census Tracts Within Bank’s AA	% of Businesses in Census Tracts	% of Loans Made by Number	% of Loans Made by Dollar Volume
Low	5%	6%	0%	0%
Moderate	20%	29%	26%	24%
Middle	46%	42%	58%	62%
Upper	29%	23%	16%	14%
Total	100%	100%	100%	100%

Table 7

CONSUMER LOANS SECURED BY REAL ESTATE			
Income Levels	% of Census Tracts Within Bank's AA	% of Loans Made by Number	% of Loans Made by Dollar Volume
Low	5%	0%	0%
Moderate	20%	0%	0%
Middle	46%	60%	75%
Upper	29%	40%	25%
Total	100%	100%	100%

Table 8

OTHER CONSUMER LOANS			
Income Levels	% of Census Tracts Within Bank's AA	% of Loans Made by Number	% of Loans Made by Dollar Volume
Low	5%	0%	0%
Moderate	20%	6%	0%*
Middle	46%	31%	34%
Upper	29%	63%	66%
Total	100%	100%	100%

* rounds to 0%.

Our sample of commercial loans reflects reasonable penetration of moderate-income census tracts but no penetration of low-income census tracts. This may be explained by the small number of low-income census tracts and the small size of the bank. The assessment area has only three low-income census tracts. One of these census tracts is on a military base which would have little demand for commercial loans. Although commercial loans are the bank's primary loan product, the bank is very small relative to its assessment area. The bank generated 44 commercial loans from July 7, 1997, to December 31, 1998. This is a small volume compared to the 55 census tracts in the bank's assessment area. As a result, some of the census tracts had no penetration. Our sample reflects penetration of only 11 census tracts. In addition, the bank has no branches in low-income census tracts, which limits its exposure in those areas.

Our sample of consumer loans reflects little penetration of low- or moderate-income census tracts. Although consumer loans are not a primary focus of the bank, this lack of penetration is of some

concern. Some of this lack of penetration can be explained by low overall loan volume and the lack of branches in low- or moderate-income areas.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

Almost all of the bank’s loan originations are within its AA. From July 1, 1997, to December 31, 1998, our sample indicates the bank originated 94% of loans by number and 96% of loans by dollar volume within its AA. The following chart details the percentage of loans by number and dollar volume of commercial and consumer loans.

Table 9

LENDING WITHIN THE ASSESSMENT AREA		
Loan Type	% Inside Area by #	% Inside Area by \$
Commercial	95%	98%
Consumer Secured by Residential RE	93%	92%
Other Consumer Loans	95%	99%

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank’s loan-to-deposit ratio is reasonable given its size, financial condition, and AA demographics. We calculated the bank’s average loan-to-deposit ratio using quarter-end information from March 31, 1997, to September 30, 1998. These dates were used to include all available quarterly information since the change in bank ownership in December 1996. The bank’s average loan-to-deposit ratio during this time period was 77.3%. The ratio remained relatively steady during this time period. There is only one similarly situated bank in the Anchorage market. That bank’s average loan-to-deposit ratio was a comparable 81.0%.

RESPONSE TO SUBSTANTIATED COMPLAINTS

The bank has not received any written complaints regarding its CRA performance since the prior CRA examination.

FAIR LENDING REVIEW

We did not perform a fair lending file review due to the small number of consumer related loans made in 1998. We reviewed bank lending policies and training for fair lending. We also discussed fair lending credit practices with management. We did not identify any evidence of discriminatory lending behavior or practices.