



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 15, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Alaska First Bank & Trust, N.A.
Charter Number 21990**

**3301 C Street
Anchorage, AK 99503**

**Comptroller of the Currency
1000 Second Avenue, Suite 3300
Seattle, WA 98104**

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**”.

The major factors that support this rating include:

- The average loan-to-deposit ratio of 42 percent is consistent with peer banks.
- A substantial majority of loans are in the bank's assessment area.
- The distribution of loans reflects reasonable penetration among businesses of different sizes.
- The geographic distribution of loans reflects adequate dispersion throughout the assessment areas.
- There were no public complaints about the bank's CRA performance.
- The bank originated \$2.7 million in a community development loan and provides considerable community services.

DESCRIPTION OF INSTITUTION

Alaska First Bank & Trust, N.A. (Alaska First) is a community bank with assets of \$69 million as of September 30, 2003. The bank has two financial centers that serve the Anchorage Borough. The bank has a deposit-taking ATM at each location.

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

Primary competition includes two larger banks headquartered in Anchorage, branches of two regional banks, three large federal credit unions, and several mortgage and finance companies.

Alaska First offers a wide variety of credit and deposit services to meet the needs of its customers. This includes various types of commercial loans, consumer installment loans, home equity loans, and personal lines of credit. The bank offers deposit services for a nominal fee and provides free services to segments of the population. For example, the Economy account provides unlimited transactions at bank-owned ATM machines and a limited number of checks may be written for one low monthly fee. Senior citizens are offered checking accounts with no service charge and minors can maintain a savings account at no charge. Non-profit organizations that provide community services and/or education benefits to the community also qualify for a checking account free of monthly service charges.

Table 1 shows the composition of the bank's loan portfolio as of September 30, 2003:

Table 1

LOAN PORTFOLIO COMPOSITION September 30, 2003*		
Loan Type	\$ Volume (000)	% of Portfolio
Commercial	8,570	53%
1-4 Family Residential	4,159	26%
Consumer	3,048	19%
Other	360	2%
Total:	16,137	100%

*Source: 9/30/03 Call Report – Average Gross Loans

The last Community Reinvestment Act examination was conducted in January 1999 and the bank received a satisfactory rating.

DESCRIPTION OF ANCHORAGE ASSESSMENT AREA

The bank has defined its assessment area as all of the Anchorage Metropolitan Area located in south central Alaska. The assessment area complies with regulatory guidelines and does not arbitrarily exclude any low- or moderate-income areas. Anchorage is the largest city in Alaska and it is the center of commerce for the state. Anchorage contains 42 percent of the state's population. Defining characteristics of Anchorage are that it contains a shipping port, Elmendorf Air Force Base, Fort Richardson Military Reservation, and a busy international airport that is an important conduit for freight and passengers en route to Asia. Anchorage is ideally situated to take advantage of the tourist trade, with its proximity to the Kenai Peninsula, mountain ranges, national parks, national wildlife refuges, and other attractions. Employment by the government and military makes up nearly 22 percent of the work force. Other important sources of employment are services, retail trade, transportation/utilities, finance/insurance/real estate, construction, and mineral extraction. Economic conditions in the area are good, with relatively low unemployment and poverty rates.

In the 2000 U.S. Census, the population of the Anchorage AA increased to 260,283, a 15 percent increase from the 1990 U.S. Census. The 2003 U.S. Department of Housing and Urban Development (HUD) updated median family income was \$73,600. Table 2 provides more detailed demographic information of the bank's assessment area.

Table 2

Demographic Information for Anchorage Metropolitan Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	55	1.82	32.73	41.82	23.64	0.00
Population by Geography	226,338	1.31	30.34	42.87	25.48	0.00
Owner-Occupied Housing by Geography	56,933	0.51	18.28	47.17	34.04	0.00
Business by Geography	22,506	2.72	36.65	39.90	20.73	0.00
Farms by Geography	282	0.00	21.63	48.23	30.14	0.00
Family Distribution by Income Level	64,833	19.33	17.89	23.81	38.97	0.00
Distribution of Low and Moderate Income Families throughout AA	24,130	1.90	44.54	41.33	12.23	0.00
Median Family Income (MFI)		63,682	Median Housing Value		140,815	
HUD Adjusted Median Family Income for 2003		73,600	Unemployment Rate (Alaska Dept. of Labor, 2002 Average)		5.4%	
Households Below Poverty Level		6.39%				

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 1990 US Census and 2003 HUD updated MFI

In conjunction with this CRA examination, we conducted a community contact interview. Community contacts are interviewed to learn about credit opportunities within the community, and how well financial institutions address the credit and service needs of the community. The contact for this examination was an individual from a local economic development organization. This representative stated there is a strong need for business start-up financing.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio:

The loan-to-deposit (LTD) ratio demonstrates a willingness to lend. The bank's level of lending is adequate given the bank's size, the credit needs, and the competitive banking market within the assessment area. We analyzed the bank's LTD ratio over the last 19 quarters, from December 31, 1998 through June 30, 2003. During these 19 quarters, the LTD ratio ranged from a low of 30 percent in June 2003 to a high of 58 percent in December 1998, with an average of 42 percent.

The bank's LTD ratio was compared to peer banks operating in the State of Alaska that have similar asset size and competitors. The peer group consists of two banks ranging in total asset size from \$175 million to \$297 million. We analyzed the peer's quarterly LTD ratio over the same time period, and the average was 55 percent.

The LTD ratios do not take into consideration public fund deposits or legal lending limit restrictions. The bank has a large volume of public funds that are highly volatile and/or their use is restricted. During the evaluation period the balance of these funds range from \$8 - \$12 million, which represents between 12-17 percent of the bank's total deposits. Legal lending limit restricts the bank from booking loans over approximately \$850 thousand to any one borrower. Therefore, those loans originated must then be participated to other financial institutions. Participations not included in the ratios as of our examination date totaled \$5.1 million.

Considering the mitigating factors above and comparison to peer, Alaska First's average LTD ratio, while low, is consistent with the peer group average. Consequently, the bank meets the standard for satisfactory performance.

Lending in Assessment Area:

A substantial majority of loans and other lending-related activities are in the bank's assessment area.

We reviewed Home Mortgage Disclosure Act (HMDA) reportable loans originated in 1999 - 2002 and a sample of 20 commercial loans originated from January 1, 1999 through September 30, 2003. Table 3 demonstrates the distribution of loans originated inside and outside of Alaska First's assessment areas.

Table 3

NUMBER AND PERCENTAGE OF LOAN ORIGINATIONS WITHIN THE ASSESSMENT AREA YEARS 1999 - 2003								
	Inside Assessment Area				Outside Assessment Area			
LOAN PRODUCT	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)
Commercial	20	100%	4,060	100%	0	0%	0	0%
Residential	26	96%	1,510	95%	1	4%	78	5%
Total	46	98%	5,570	99%	1	2%	78	1%

As demonstrated in Table 3, both in number of loans and dollar volume, the bank originated a substantial majority of its loans within the assessment area. Consequently, the bank's lending to borrowers within the assessment area exceeds the standard for satisfactory performance.

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

The bank's distribution of loans, given the demographics of the assessment area, reflects reasonable penetration among businesses of different sizes.

Our sample included all HMDA reportable loans and a random sample of 40 commercial and 40 consumer loans. These loans were originated between January 1999 and September 2003, and were within the bank's assessment area.

We compared the bank's lending to businesses in the assessment area to the demographics of small businesses of the assessment area. Small businesses are those with gross revenues of \$1 million or less. Updated business demographics, provided by Dun & Bradstreet, reflect that 89 percent of the businesses in the Anchorage metropolitan area are small businesses. Table 4 reflects the distribution of commercial lending by business revenue size.

Table 4

DISTRIBUTION OF COMMERCIAL LOANS BY ANNUAL REVENUE YEARS 1999 - 2003					
Revenue Size	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Small Businesses in AA*
Under 1 Million	27	68%	5,010	63%	89%
Over 1 Million	13	32%	2,986	37%	11%
Total Loan Sample:	40	100%	7,996	100%	100%

* Source: 2003 Dun & Bradstreet

The sample indicates that 68 percent of the loans were originated to businesses with gross annual revenues under \$1 million. Compared to the demographics of 89 percent, it appears the bank is not lending to small businesses. Management stated that in this area, micro-businesses (businesses with less than 4 employees) usually fund their liquidity needs with loans secured by their residence or with credit cards. These funding sources tend to be quicker to obtain and less documentation is necessary to close the loan. In addition, competition is strong. Management stated that large multi-state banks in the Anchorage area provided funding to businesses with little or no financial documentation to support the ability to repay the loan.

Table 5 below reflects the distribution of residential-related loans by borrower income level and compares it to the distribution of families in the assessment area by income level. Because Anchorage is located in a metropolitan area, we reviewed all HMDA reportable loans originated during the period January 1999 through December 2002. Our review is comprised of 26 loans totaling \$1.5 million.

Table 5

RESIDENTIAL LOANS BY INCOME LEVEL YEARS 1999-2002					
Borrower Income*	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Families in AA**
Low Income	2	8%	34	2%	2%
Moderate Income	2	8%	95	6%	11%
Middle Income	3	11%	44	3%	46%
Upper Income	19	73%	1,337	89%	41%
Total Loan Sample:	26	100%	1,510	100%	100%

*Based on HUD 2003 Updated Median Family Income.

**Source: 1990 U.S. Census

Table 5 reflects the bank's lending to low-income borrowers exceeds the area demographics in number of loans and is consistent with the dollar volume. For moderate-income borrowers, the lending patterns are slightly below the demographics of the area. Overall the bank's lending in low- and moderate-income borrowers meets the standard for satisfactory performance.

Geographic Distribution of Loans:

The geographic distribution of loans meets the standard for satisfactory performance.

Geographic distribution of lending is reviewed for the pattern of lending activity between low- and moderate-income tracts within the assessment areas. Overall, the bank's lending distribution is reflective of the population demographics in the various income areas.

We reviewed the pattern for geographic distribution of lending between low- and moderate-income tracts within the assessment areas. Tables 6 and 7 detail the bank's commercial,

residential, and consumer lending activity within the AA. We used the same sample of loans from the **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes** section of this report.

Table 6

GEOGRAPHIC DISTRIBUTION OF COMMERCIAL LOANS YEARS 1999-2002					
Income of Tract	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Businesses in AA*
Low Income	3	8%	191	2%	3%
Moderate Income	6	15%	1,659	21%	36%
Middle Income	17	42%	3,226	40%	42%
Upper Income	14	35%	2,920	37%	19%
Total Loan Sample:	40	100%	7,996	100%	100%

*Source: 2003 Dun & Bradstreet

The sample in Table 6 indicates that for number of loans originated, the bank significantly exceeds demographics of businesses located in low-income tracts. However, for businesses located in moderate-income tracts, the bank is below the demographics both in number of loans and dollar volume. When we reviewed the geographic area, the moderate-income tracts are several miles away from the branches. In addition, one moderate-income tract is where Elmendorf Air Force base is located.

Table 7

GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL LOANS YEARS 1999-2002					
Income of Tract	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Owner Occupied Housing in AA*
Low Income	0	0%	0	0%	2%
Moderate Income	0	0%	0	0%	11%
Middle Income	10	38%	229	15%	46%
Upper Income	16	62%	1,281	85%	41%
Total Loan Sample:	26	100%	1,510	100%	100%

*Source: 1990 U.S. Census

Data in Table 7 indicates that the bank did not lend to individuals located in low- or moderate-income tracts. However, one of the low-income tracts is where the Fort Richardson Military Base is located, and the majority of the moderate-income tracts are several miles away from the branch.

Qualified Community Development Loans and Services:

Community Development Loans:

Alaska First originated one loan for \$2.65 million to a nonprofit organization that provides community services targeted to low- and moderate-income individuals in Anchorage and Matanuska Valley area.

Community Development Services:

Residential mortgage loans are processed through the bank's subsidiary, Alaska First Mortgage. During January 1, 2002 through November 19, 2003 the subsidiary helped initiate financing for 40 loans totaling \$7.9 million.

Alaska First's employees provide community development services in the Anchorage and surrounding communities. Community development services are focused on economic development and services to low-income individuals. Employees are often individually involved in several community development services, often in leadership positions. Below are examples of several employees' involvement in services to their communities:

- Bank employees teach Junior Achievement courses that educate youth in business economics.
- A bank officer serves on a loan committee that provides funding to female-owned businesses.
- The senior lending officer is involved with small business seminars and workshops educating businesses on financial matters.
- Several employees either serve or support Habitat for Humanity.

Responses to Complaints:

Alaska First has not received any written complaints associated with its performance under the Community Reinvestment Act.

Fair Lending or Other Illegal Credit Practices Review:

We found no evidence of illegal discrimination or other illegal credit practices.