

# **PUBLIC DISCLOSURE**

April 15, 1996

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Guardian State Bank  
12-49-0417-0000**

**142 East 200 South  
Salt Lake City, Utah 84111**

**FEDERAL RESERVE BANK OF SAN FRANCISCO  
101 MARKET STREET  
SAN FRANCISCO, CALIFORNIA 94105**

**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 Community Reinvestment Act (CRA) performance of **Guardian State Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of April 15, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

### **INSTITUTION'S CRA RATING:**

This institution's overall CRA (Community Reinvestment Act) performance is rated satisfactory based upon a review of its provision of credit to its community. Evidence was found during the examination that management had taken an affirmative role in identifying and meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The following table indicates the performance level of Guardian State Bank with respect to each of the five performance criteria.

<b>SMALL INSTITUTION ASSESSMENT CRITERIA</b>	<b><u>GUARDIAN STATE BANK</u></b> <b>PERFORMANCE LEVELS</b>		
	<b>Exceeds Standards for Satisfactory Performance</b>	<b>Meets Standards for Satisfactory Performance</b>	<b>Does not meet Standards for Satisfactory Performance</b>
Loan-to-Deposit Ratio	X		
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the previous examination.		

**DESCRIPTION OF INSTITUTION:**

As of December 31, 1995, Guardian State Bank had total assets of over \$72 million. The bank has four branches, three of which, including the main office, are located in Salt Lake City, Utah. The fourth branch is located in Sandy, Utah. Management indicated the bank's two primary credit emphases were business-purpose lending, particularly extending Small Business Administration loans, and short-term residential construction lending. Additionally, some consumer-purpose loans are also extended. A review of the bank's loan portfolio as of year-end 1995 reveals the following distribution:

Loans secured by real estate:	
construction and land development	29.6%
secured by farmland	.5%
secured by 1-4 family residential properties	7.2%
secured by multifamily residential properties	.2%
secured by nonfarm nonresidential properties	50.5%
Commercial, industrial, and other business-purpose	5.7%
Loans to individuals for consumer purposes	6.3%
Total	100%

As the distribution reveals, a significant portion of Guardian State Bank's portfolio is real estate-secured, with a secondary concentration in construction and land development. This is a credit focus that is reflective of the expertise of senior management and the board of directors. During the period of review, the bank was operating under no external constraints affecting its ability to affirmatively meet its responsibilities under the Community Reinvestment Act.

### **DESCRIPTION OF SALT LAKE COUNTY:**

The Bank has defined Salt Lake County as its assessment area. Salt Lake County consists of twelve cities, with the county seat being Salt Lake City. The assessment area is made up of 156 census tracts with the following population and income demographics:

Type of Tracts	Number of Tracts	Population in Tracts	Household Income <sup>1</sup> Range
Low-income	7	12,516	\$0 to \$21,100
Moderate-income	39	160,070	\$21,000 to \$33,760
Middle-income	78	394,132	\$33,760 to \$50,640
Upper-income	32	159,238	\$50,640 and More
Total	156	725,956	

<sup>1</sup>The income category is based upon a given percentage of the median household income of the MSA of which the assessment area is a part. For Salt Lake County, the relevant income is \$42,200. Low income is considered less than 50% of the median household income, moderate income 50% to 80%, middle income 80% to 120%, and upper income 120% and greater.

The U.S. Census Bureau's review of county business patterns noted that, as of 1992, there was a total of 19,734 business establishments employing 351,417 persons. The distribution of establishments is as follows:

Type of industry	Number of Employees	Number of establishments
Services and other	122,438	6,948
Retail trade	69,017	4,325
Manufacturing	50,972	1,339
Transportation and public utilities	31,043	710
Wholesale trade	27,291	2,032
Finance, insurance, and real estate	24,813	2,060
Construction	16,448	2,030
Administrative auxiliary	6,224	203
Mining	3,171	87
Total County	351,417	19,734

With regard to the types of credit needed in the assessment area, examiner discussions with community representatives indicated there is a demand for business credit in the county. Specialized programs exist to meet the credit needs of a variety of businesses of varying sizes and stages of development. For example, start-up loans in small amounts are available through microloan funds capitalized by local financial institutions and government entities. Additionally, opportunities for banks to participate in government-guaranteed loan programs exist.

Further information indicates there is demand for loans to finance residential construction. An analysis by the Bureau of Economic and Business Research of the University of Utah indicates that, for the state as a whole, single-family housing construction started slowly in early 1995, but has escalated by the last six months of that year. While 6,303 single-family units were authorized during the first half of the year, the remaining half saw 7,601 units authorized, for a total of 13,904 units authorized in 1995. The Bureau's analysis indicates the majority of this construction was concentrated in the Wasatch Front counties, which accounted for 7,716 of the 13,904 units. Salt Lake County, one of the five Wasatch Front counties, accounted for 4,909 (64%) of the 7,716 units authorized. Thus, the demand for single family residential construction in Salt Lake County can be substantiated.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

**LOAN TO DEPOSIT RATIO:**

Using five of the quarterly Consolidated Reports of Condition and Income covering the period of review, Guardian State Bank's average loan-to-deposit ratio was 78%. During the period, the bank's outstanding deposits fluctuated; however, its outstanding loans showed an upward trend. The chart below illustrates the range of values during the period.

Quarter Ending	Loan-to-Deposit Ratio
December 1994	77%
March 1995	82%
June 1995	73%
September 1995	80%
December 1995	80%
Average Loan-to-Deposit Ratio	78%

A comparison of the bank's year-end loan-to-deposit ratios for 1994 and 1995 to those of similarly-situated nationwide banks<sup>2</sup> indicates Guardian State Bank ranks among the higher percentiles (75th and 86th, respectively). Similarly, a comparison of Guardian State Bank with a similarly-situated local bank, indicates that for 1994 and 1995, Guardian State's ratios were slightly higher in 1994 and significantly higher in 1995.

The comparison with similarly-situated banks indicates Guardian State is actively extending credit, and that its average loan-to-deposit ratio exceeds the standard for satisfactory performance.

**LENDING IN ASSESSMENT AREA:**

Statistical samples of construction and small business loans were drawn from all such loans extended since the previous examination. A geographical analysis was performed on the two samples in order to extrapolate conclusions regarding the degree to which the bank was extending credit within its assessment area. The following tables present the results of this analysis:

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<sup>2</sup>In the case of Guardian State Bank, similarly-situated banks are those commercial banks having assets between \$50 and \$100 million with three or more banking offices, and located in a metropolitan area.

### Construction Loans

	Inside Assessment Area	Outside Assessment Area
Total Number of Loans	72	19
Percentage of Total Loans	79%	21%
Total Amount of Loans	\$13,488,761	\$3,030,897
Percentage of Total Loans	82%	18%

### Small Business Loans

	Inside Assessment Area	Outside Assessment Area
Total Number of Loans	71	19
Percentage of Total Loans	79%	21%
Total Amount of Loans	\$17,358,378	\$5,018,900
Percentage of Total Loans	78%	22%

From the results of this analysis it can be concluded that the bank's standard practice is to extend the significant majority of its loans within its assessment area.

#### **LENDING BY BORROWER INCOME AND BY BUSINESS REVENUE:**

To determine the degree to which applicants of different income levels and businesses of a given revenue level receive credit from the bank, the same statistical loan samples were used. In this regard, the examiners collected information regarding the income of the applicants and sorted the results according to the income categories defined by the Act. Additionally, the revenues of business applicants were reviewed in order to determine the extent to which the bank is extending credit to small businesses, which is defined as businesses having annual revenues of less than \$1 million.

The sample of construction loans consisted of both loans to consumers constructing a primary residence and loans to businesses or investors constructing a residence for resale. It should be noted that the bank extends construction loans only upon the applicant's procurement of permanent financing from another institution. (Guardian State Bank does not extend long-term residential mortgage loans.) Thus, the consumer-purpose construction loans extended by the bank reflect the availability of permanent financing from other financial institutions offering such credit.

The analysis of the income level of the construction loan borrower is indicated by the

following:

### **Construction Loan Distribution by Borrower Income**

	Low Income	Moderate Income	Middle Income	Upper Income
Total Number of Loans	0	1	10	45
Percentage of Total Loans	0%	2%	18%	80%
Total Amount of Loans	\$0	\$60,000	\$1,324,125	\$8,817,975
Percentage of Total Loans	0%	1%	13%	86%

As the above indicates, no construction loans were extended to low income borrowers. However, as previously stated, the bank's construction loan extensions are influenced by the provision of permanent financing by other institutions. Accordingly, conclusions regarding the borrower profile of the bank's construction loan portfolio are inconclusive.

On the other hand, a significant borrower profile can be obtained from a review of the bank's extension of small business loans. The results of this analysis are detailed in the following table.

### **Small Business Loan Distribution By Borrower Revenue**

	Loan Amount ≤ \$100,000	\$100,000 < Loan Amount ≤ \$250,000	\$250,000 < Loan Amount ≤ \$1,000,000
Total Number of Loans	16	10	17
Percentage of Total Loans	37%	23%	40%
Percentage of Loan Category to Small Businesses	94%	40%	76%
Total Amount of Loans	\$1,103,200	\$1,903,500	\$8,159,000
Percentage of Total Loans	6%	11%	47%
Percentage of Total Loans to Small Businesses	91%	37%	71%

As the figures indicate, the bank's predominant borrowers are small businesses with annual revenues of less than \$1 million a year. Information from the Small Business Administration provides a comparative measure of the extent to which the bank is meeting the credit needs of small businesses. This data indicate that for the SBA's fiscal year 1995, Guardian State Bank ranked second in the number of SBA 7(a) loans extended, behind a significantly larger multibranch bank. However, Guardian State ranks first, ahead of the same bank, by dollar amount, representing 26% of the \$109 million extended during the period. The bank's performance exceeds the standard for satisfactory performance.

**GEOGRAPHIC DISTRIBUTION OF LOANS:**

To determine the distribution of loans among geographies of different income levels, the location (i.e., census tract) of the borrower was matched with the income demographics associated with that location. Recall that the bank's assessment area consists of 156 census tracts, with 4% being low income, 25% being moderate income, 50% being middle income, and 21% upper income. The population clusters in the moderate and middle income tracts, respectively representing 22% and 54% of the total population of 725,956.

The results of the analysis of construction loans are as follows:

**Construction Loans**

	Low Income Tract	Moderate Income Tract	Middle Income Tract	Upper Income Tract
Total Number of Loans	1	5	39	27
Percentage of Total Loans	1%	7%	54%	38%
Total Amount of Loans	\$90,000	\$1,150,386	\$7,135,725	\$5,112,650
Percentage of Total Loans	1%	9%	53%	38%

The geographic distribution of construction loans generally follows the makeup of the assessment area. The predominance of loans by number and amount is in the middle income areas. Visitations to the construction sites indicated that these were areas of previously undeveloped land. Consequently, the distribution reflects not only the general makeup of the assessment area but also the locations of undeveloped land. Therefore, the distribution is considered reasonable.

The results of the analysis of small business loans are as follows:

#### **Small Business Loans**

	Low Income Tract	Moderate Income Tract	Middle Income Tract	Upper Income Tract
Total Number of Loans	6	36	19	10
Percentage of Total Loans	8%	51%	27%	14%
Total Amount of Loans	\$937,500	\$7,603,178	\$5,332,700	\$3,485,000
Percentage of Total Loans	5%	44%	31%	20%

As with the construction loans, the geographic distribution of small business loans reflects the general make-up of the assessment area. However, the majority of loans by number and amount is within the moderate income areas of Salt Lake County, reflecting the location of businesses in such areas. Therefore, the geographic distribution of small business loans is considered reasonable.

## **COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS:**

Guardian State Bank was found to be in violation of the technical provisions of Regulation B (Equal Credit Opportunity Act), Regulation C (Home Mortgage Disclosure Act), and the Fair Housing Act. The examiners reviewed the bank's compliance program to determine the adequacy of allocated resources, including the effectiveness of training and administrative oversight. This review included the bank's written loan policy, articulated lending standards, and interviews with bank personnel with regard to credit application and evaluation practices. Additionally, the examiners reviewed the application of credit standards for approved and declined credit applications to determine the consistency of credit underwriting. The direct interviews with lending staff indicated that they have an adequate knowledge of applicable fair lending laws and regulations. Moreover, the examiners' review of the bank's underwriting practices noted no illegal credit practices. Nevertheless, the examiners noted that a fully developed fair lending program to ensure continued compliance with the substantive provisions of the fair lending laws and regulation was not in evidence. Management acknowledged this observation by the examiners and indicated suitable steps would be taken to strengthen the bank's compliance administration. However, since the violations found do not evidence any prohibited discriminatory or illegal credit practices, they did not have a negative affect on the assessment of the bank's performance under the CRA.