

PUBLIC DISCLOSURE

August 25, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Utah Bank
12-49-0477-0000**

**3826 South 2300 East
Salt Lake City, UT 84109**

**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.

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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 **First Utah Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of **August 25, 1997**. 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 is rated satisfactory.

First Utah Bank's overall Community Reinvestment Act (CRA) rating is **satisfactory** based upon a review of its efforts to meet the credit needs within its assessment area. The bank has extended a significant amount of credit to low- and moderate-income borrowers and small businesses within its assessment area. In addition, despite the high level of competition and the large increase in its deposit base, bank management has continued to extend credit throughout its community in a satisfactory manner. There were no findings of illegal discrimination or discouragement involving fair lending laws and regulations that would influence the CRA rating.

DESCRIPTION OF INSTITUTION:

As of June 30, 1997, First Utah Bank had total assets of \$47 million. The bank is owned by First Utah Bancorporation, a single bank holding company. In addition to the Main Office, the bank operates four other branches which are located throughout most of Salt Lake County. The bank does not have any current merger or acquisition plans; however, the bank is expanding with additional branch locations.

The bank does not have any stated specialization in any given loan product but instead offers a variety of credit products and banking services to meet the credit needs of its community. The bank offers commercial, construction, home equity lines of credit, credit cards, and consumer installment loans. The bank aggressively markets its business loan products through a loan officer call program.

Gross loans represent the largest proportion of total assets at 51%. The following is a breakdown by dollar volume of the bank's loan portfolio:

Commercial	60%
Secured by Residential Real Estate	18%
Consumer purpose	17%
Construction	5%

In choosing what loan types to base the bank's CRA evaluation on, both the dollar volume and number of loans extended for each loan type were considered. Examiners determined that commercial loans and consumer purpose loans qualified as the bank's major product lines.

The bank is in strong financial condition and does not have any legal or financial impediments that would adversely affect the bank's ability to meet the credit needs within its assessment area. For the past three Community Reinvestment Act evaluations, the bank has achieved three consecutive satisfactory ratings.

DESCRIPTION OF FIRST UTAH BANK'S ASSESSMENT AREA

The assessment area for First Utah Bank is located in MSA 7160 and is made up of 141 census tracts which includes most of Salt Lake County. The assessment area contains whole geographies and meets all other requirements of the regulation.

According to the 1990 Census data, the total population of the assessment area is 680,772 which is 94% of the total population of Salt Lake County. The median age of Utah's population is 26.8 years and is the youngest in the nation. The national median age is 34.3 years.¹ The types of census tracts and their respective populations within the assessment area are broken down as follows:

¹1997 Economic Report to the Governor, State of Utah, p. 26

Census Tracts	Number	Percentage of Total	Population	Percentage of Total
Low	6	4%	11,058	2%
Moderate	34	24%	136,958	20%
Middle	73	52%	381,347	56%
Upper	28	20%	151,409	22%
Total	141	100%	680,772	100%

There is a widespread distribution of low- and moderate-income families throughout the assessment area. There are 28,481 low-income families living within the assessment area and of these, only 4,108 (14%) live in low-income geographies. A large number of low income families live in moderate- and middle-income census tracts and these figures are 11,476 (40%) and 13,257 (47%), respectively. Similarly, 19,143 or 59% of all moderate-income families in the assessment area live in middle income geographies.

The 1997 HUD adjusted family median income for MSA 7160 is \$47,700 which is greater than the \$38,500 figure for the state. There is a trend of increasing income growth for the state. Utah's 1996 total personal income (TPI) is forecast to be \$38.4 billion, up 8% from the 1995 total, which also increased 8% from the 1994 level. The comparable national TPI growth rate for 1996 is 5.4%².

With 41% of the state's population and 51% of its jobs, Salt Lake County is the foundation of Utah's economy³. According to the state governor's report, the economic and business environment in Salt Lake County is healthy and vibrant. This has been the basic trend for the past five years and the future outlook is similar. The State Economic Coordinating Committee expects employment to grow at about 4.2% in 1997. Population is forecast to increase at 2.1%; total wages 8.5%; and personal income, 7.8%⁴.

The residential housing and commercial real estate market is very strong. According to a national realtors report, the average price of a home in the Salt Lake City area has increased dramatically. In 1993, the median sales price of an existing single-family home was \$84,900. In the second quarter of 1996 the average price was \$124,200 which is an increase of 32%⁵. There is a high level of owner occupied residential housing with 88% of

²Ibid., "Demographic and Economic Analysis", Personal Income, p. 1

³Utah Department of Workforce Services, *A Demographic and Economic Profile of Salt Lake County*, July 1997

⁴1997 Economic Report to the Governor, State of Utah, p. 13

⁵National Board of Realtors Median Sales Price of Existing Single-Family Homes: 1992 to third quarter 1996, p. 1

the population within the assessment area buying their own home. In 1995, Utah ranked 7th in the nation for homeownership with 72% of the population owning a home⁶. The residential rental market in the assessment area is also strong with low vacancy rates and rising rents. Based on 1990 Census data, 34% of the rental units available within the assessment area, require at least 30% of the renter's monthly income. Retail space has a overall vacancy rate of 7.5% which is considered low. A third quarter 1996 study revealed commercial real estate vacancy rates to be at 6% and apartment vacancy rates to be around 4%⁷.

All indicators point to a strong business environment and solid economic growth for MSA 7160. From 1992 to 1996, employment has increased 23.4%. By industry type, construction has had the greatest growth with a 52.7% increase from 1990-1994. A record 23,500 new dwelling unit construction permits were issued in 1996 with a record value of \$2.1 billion⁸.

The Utah 1997 Economic Report to the Governor states that annual employment growth during the last four years has exceeded 5% and is more than double the equivalent national rate. Additionally, in 1996, Utah's job growth rate was 5.3%, ranking second among all states. The state economic coordinating committee expects employment to grow at about 4.2% in 1997.

Based on 1990 Census data, unemployment in the assessment area is 4.7% which compares favorably to Salt Lake County as a whole and the state which have levels of 4.8% and 5.3% respectively. The Utah Department of Employment Security has more recent statistics on unemployment figures for the state, the Salt Lake City / Ogden MSA, and the nation:

Current Unemployment Rates	April 1997	May 1997	June 1997
State Total	3.0	3.0	3.1
Salt Lake City / Ogden MSA 7160	2.8	3.0	2.9
United States	4.9	4.8	5.0

According to 1995 statistics provided by the Utah Department of Employment Security, the major industries in Salt Lake County by type and total employment are as follows:

⁶1997 Economic Report to the Governor, State of Utah, p.28

⁷Ibid., p. 28-29

⁸Ibid., p. 17

Type of Industry	# of Firms	# of employees
Services	8,625	124,379
Trade	7,883	115,913
Government	750	69,329
Finance, Insurance, & Real Estate	2,544	34,022
Construction	3,118	26,498

The vast majority of businesses in Salt Lake County are small businesses⁹. A proxy that is often used is the number of employees that a business employs. Typically, those businesses with 50 or fewer employees are considered small businesses. Using first quarter 1996 statistics, the Utah Department of Employment Security indicates that 26,297 establishments exist in Salt Lake County and 24,851 (97%) of them employed 1 to 49 employees. The largest group was establishments employing 1 to 4 employees which totaled 10,800 businesses or 41% of the total number of establishments.

Information obtained from the Economic Development Corporation of Utah revealed the six largest employers in Salt Lake County to be:

Company	Number of employees	Industry
Intermountain Health Care	21,000	Health Care / Service
First Security Corporation	7,000	Financial Institution
Pacific Corp	7,000	Electric Utility
Smith's Food and Drug	5,500	Grocery Stores
WalMart	4,500	Retail / Distribution
Delta Airlines	4,000	Airline

There is a high level of banking competition within the assessment area. There are 23 financial institutions with total assets between \$5 million and \$500 million operating at least one full-service branch in the assessment area. There are also approximately 116 credit unions operating throughout the State of Utah which is the third highest number in the country. Bank management indicated that it is extremely challenging to compete with the credit unions and larger banks within the assessment area because of their low loan pricing strategies.

Due to the growing population and the strong economic environment of Salt Lake County,

⁹Small businesses are those which had less than \$1 million in gross sales in the prior year

the credit needs within the assessment area are widespread. In order to gain further insight into general credit needs of the community, examiners contacted an individual from a non-profit corporation that assists inexperienced small business entrepreneurs. This individual identified start-up loans to small businesses and loans to female and minority entrepreneurs as significant credit needs in Salt Lake County. In general, business loans under \$100,000 are in high demand. The contact stated that most financial institutions in the Salt Lake area do not offer start-up business loans but instead want to deal with businesses that have been open at least 18 months. However, overall, the contact believes that financial institutions are doing a sufficient job in providing credit to the community. The contact stated that there seems to be more financial institutions pursuing fewer lending opportunities. The community contact did reference First Utah Bank as a community bank striving to meet the credit needs of its customers.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

In order to evaluate the bank's level and volume of lending activity, information regarding the local economic and business environment as well as the bank's business strategy was considered. This information allows examiners to evaluate the performance of the financial institution taking into account any internal or external factors which affect banking within the assessment area.

Central to the CRA evaluation of a financial institution is the review of the geographic and demographic distribution of its major loan products. The major loan products are determined by the total number and dollar volume of lending for each loan category. For First Utah Bank, the primary loan products are commercial and consumer purpose loans.

Since the previous compliance examination, the bank extended a total of 578 loans, of which 218 were commercial and 360 were consumer purpose. In order to include a loan in the CRA evaluation, the location of the borrower must be matched to a known address. Examiners were able to address match 205 commercial loans and 310 consumer purpose loans; therefore, 515 total loans were used in evaluating the bank's performance under the "lending in the assessment area" criterion. An analysis of loans extended within the assessment area was completed for the review of the "Geographic Distribution of Loans" criteria and 492 total loans were considered under this criterion. For the review of "Lending by borrower income and by business revenue" performance criteria, a statistical sample of loans extended within the assessment area was completed, and borrower income and business revenue data was collected; a total of 236 loans were considered for this criterion.

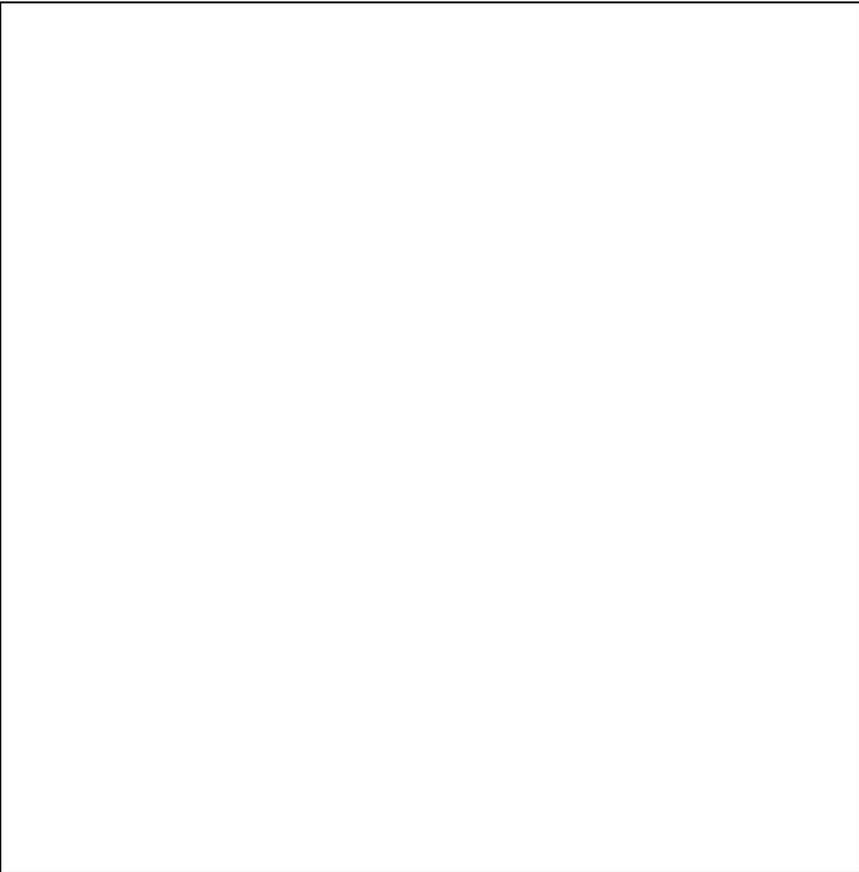
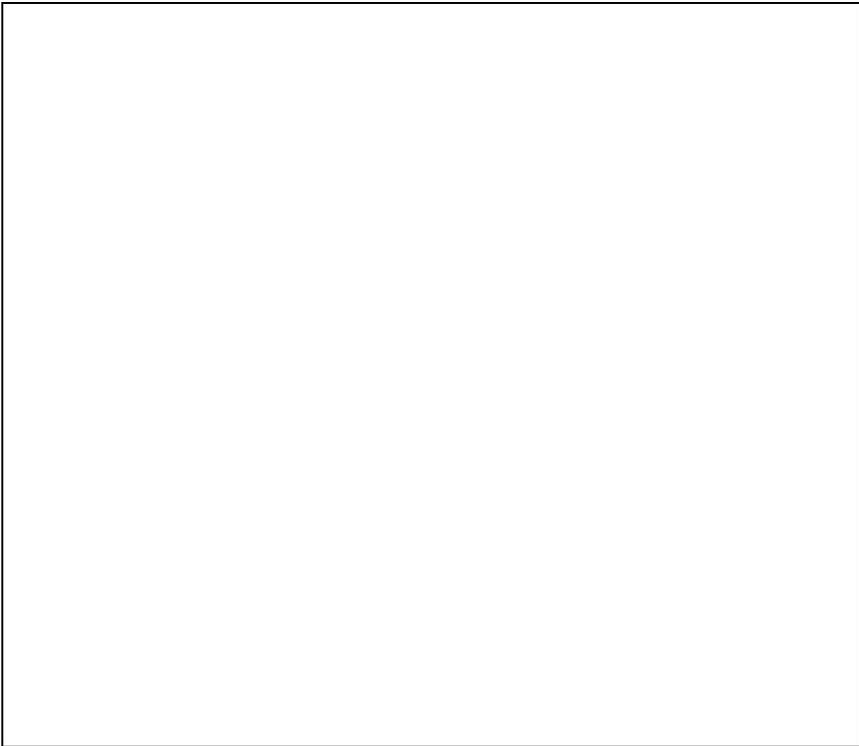
GEOGRAPHIC DISTRIBUTION OF LOANS:

There are 141 census tracts in the assessment area which consist of 6 low-income, 34 moderate-income, 73 middle-income, and 28 upper-income geographies. The distribution of the bank's lending closely mirrors the makeup of geographies within the assessment area. For instance, a majority of the bank's business and consumer purpose loans were extended in middle-income geographies and this income category represents the largest

percentage of geographies within the assessment area.

The bank has extended 33% of its business loans by number and 31% by dollar volume within low- and moderate-income geographies. The distribution of business lending outperforms that of consumer purpose lending; however, this is due to the fact that the bank markets its commercial loan products more aggressively through their loan officer call program. It is important to note that based on the loans sampled, the bank has not extended any consumer loans in low-income geographies. There are a number of reasons for not lending in those tracts. Low-income geographies account for only 4% of the geographies and 2% of the population within the assessment area. Information from bank management, the community contact, and examiner observation evidence that these low-income geographies consist largely of office buildings, warehouses, or industrial sites. As a result, there are limited opportunities to extend consumer purpose loans in these areas. Based on this data, there is no meaningful disparities in the bank's lending within the assessment area.

The following graphs reflect by number and dollar volume the distribution of business and consumer purpose lending in low-, moderate-, middle-, and upper-income geographies within the assessment area.



The geographies within the assessment area contain a level of lending which is commensurate with their respective representation. The bank has made efforts to extend credit throughout its assessment area regardless of the type of area the borrower is located in. Based on the data, the bank's dispersion of lending meets the standards for a satisfactory performance under this criterion.

LENDING BY BORROWER INCOME AND BY BUSINESS REVENUE:

Small Business Loans

In order to qualify as a small business loan under the revised Community Reinvestment Act, the original loan amount must be less than \$1 million. As stated in the description of the bank's assessment area, the majority of businesses operating within Salt Lake County are small businesses. There were 104 loans totalling \$4,112,183 in the sample, of these, 79% by number and 77% by dollar volume were extended to small businesses. The following graphs indicate by number and dollar volume the level of the bank's lending to small businesses:

The community contact interviewed by examiners indicated that business loans under \$100,000 were a definite credit need of the local community and of the business loans sampled, 94% were loans of \$100,000 or less. Considering the size of the bank and the makeup of the businesses within the assessment area, the bank is meeting the credit needs of businesses within its community.

Consumer Loans

For the evaluation of the bank's lending to borrowers of different incomes, the income level of borrowers was categorized down into low-, moderate-, middle-, and upper income categories. Based on 1990 Census Data, 165,228 families live within the assessment area. The types of family by income and their respective percentage of the total number of families is represented in the following chart:

Income Category	Total number of families	Percentage of Total
Low Income	28,481	17%
Moderate Income	32,684	20%
Middle Income	43,488	26%
Upper Income	60,575	37%

The following graph compare the number and dollar volume of consumer purpose loans to the percentage of families based on the different income categories.



Consumer purpose loans are not a primary business focus for the bank. Nevertheless, the results of examiners' analysis reflect that the bank has extended 50% of its consumer purpose loans by number to low- and moderate- income borrowers. Therefore, considering the distribution of low- and moderate-income families within the assessment area, the bank is making an effort to meet the credit needs of borrowers of all income categories throughout its assessment area.

Based on its record of lending to small businesses and to low- and moderate-income borrowers within the assessment area, the bank meets the standards for a satisfactory performance.

LOAN-TO-DEPOSIT RATIO:

To calculate the loan-to-deposit ratio the bank's net loans are measured against its total deposits. Based on the March 1997 Call Report information, First Utah Bank's loan-to-deposit ratio is 55%. Although this figure is relatively low, there are a number of factors that explain the bank's loan-to-deposit ratio. The bank is growing rapidly having opened two branches, the Centennial Branch (5/20/96) and the Sandy Branch (1/16/97) since the previous compliance examination. The new branches have contributed to the bank's total deposits. In addition, bank management stated that as the bank has developed new commercial and consumer purpose loan relationships, these customers have also transferred their deposits to the bank. Both processes have resulted in a rapid increase in the bank's total deposits. The June 1996, Call report reflected \$30,960 in total deposits compared to the \$42,349 figure from the June 1997 Call Report; an increase of 37%. The bank is in expansion mode and is working to hire and train additional loan officers. There is also considerable competition to extend credit from other financial institutions operating within the assessment area. Therefore, it may take some time for the bank to absorb its expanding deposit base with new loan production.

Using Call report information, the following chart compares First Utah Bank's and its local peers loan-to-deposit ratios for the last seven quarters dating back from March 1997:

Name of Bank	3/97	12/96	9/96	6/96	3/96	12/95	9/95
First Utah Bank	55%	61%	65%	61%	63%	68%	59%
Guardian State Bank	66%	77%	87%	78%	77%	80%	80%
First National Bank Layton	59%	57%	62%	61%	53%	49%	50%
Brighton Bank	75%	74%	71%	65%	61%	64%	61%
National Peer	67%	68%	68%	67%	65%	65%	66%

First Utah Bank's local peer and competitors were selected using the following criteria: total asset size, number of branches, and similar community. The order from top to bottom in the chart above is by increasing asset size based on information from each bank's June 1997 Call Report. Each local peer is at least twice the asset size of First Utah Bank.

Considering the competition within the assessment area, First Utah Bank's recent branch expansion, the expanding deposit base, and the need to extend loans in a safe and sound manner, the bank's performance under the loan-to-deposit criteria is considered reasonable.

LENDING IN ASSESSMENT AREA:

First Utah Bank has extended a substantial majority of its consumer purpose and commercial loans within its assessment area. The following charts reflect the percentages by number and dollar volume for the bank's lending inside and outside its assessment area for business and consumer purpose loans:

The bank's concentration of lending within the assessment area exceeds the standards for satisfactory performance.

RESPONSE TO COMPLAINTS:

First Utah Bank has not received any complaints regarding its CRA performance; therefore, the bank's performance in responding to complaints was not considered in the overall CRA rating.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS:

The bank is in compliance with the substantive provisions of antidiscrimination laws and regulations. There was a violation of a technical provision of Regulation B (the Equal Credit Opportunity Act), which was procedural in nature, but did not result in any form of discrimination. The bank has adopted an affirmation fair lending policy and has provided training to lending staff on this policy.