



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**July 07, 2008**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Canyon Community Bank, National Association  
Charter Number 24049

7981 North Oracle Road  
Tucson, Arizona 85704

Office of the Comptroller of the Currency

ARIZONA & NEW MEXICO  
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.**

Canyon Community Bank, National Association's (CCB) lending performance reflects a satisfactory response to community credit needs. The major factors that support this rating include:

- The loan-to-deposit ratio (LTD) is reasonable given the bank's age, size, financial condition and assessment area (AA) credit needs.
- The bank originated a majority of loans inside its AA.
- Lending activities represent reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects a reasonable dispersion throughout the bank's AA.

## **SCOPE OF EXAMINATION**

This examination consisted of a full scope review of CCB's single AA. The lending test covered the evaluation period of January 1, 2006 through May 31, 2008, with the exception of Home Mortgage Disclosure Act (HMDA) lending which was evaluated through June 30, 2008. The lending test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities. There were no affiliate loans to review.

We identified business and residential mortgage loans as the bank's primary products based on the number and dollar amount of loans originated in the evaluation period. The bank reports data under the requirements of the HMDA. The HMDA data was independently tested and found to be reliable. Therefore, HMDA data was used to evaluate the bank's home loan performance. To evaluate the bank's business lending performance, we selected a sample of 20 business loans. The sample is representative of the bank's business strategy since the last examination.

## **DESCRIPTION OF INSTITUTION**

There are no financial or legal impediments that hinder the bank's ability to help meet the credit needs of the AA. The bank was rated Satisfactory at the October 14, 2003 CRA examination.

CCB is a community bank chartered in October 2000. It is located in the Northeast (NE) portion of Pima County, in Tucson, Arizona. As of March 31, 2008, CCB had approximately \$87 million in total assets and net total loans of \$65 million, or 75 percent of total assets. CCB is wholly owned by Canyon Bancorporation, Inc., a one-bank holding company with consolidated assets of \$87 million. There are no affiliates. The bank opened three branch offices during the evaluation period. CCB currently operates a main office and three branches all located in NE Pima County. Each branch has its own deposit-taking ATM on-site. There have not been any merger or acquisition activities since the last CRA examination.

The bank’s primary lending focus is small business loans, followed by residential real estate loans. In terms of dollars, 74 percent of the bank’s loan originations were commercial loans and 21 percent were residential real estate loans for 2006-2007.

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

**DESCRIPTION OF ASSESSMENT AREA**

CCB has designated 109 census tracts (CTs) in NE Pima County, Arizona as its AA. The AA is part of the Tucson, Arizona metropolitan statistical area (MSA). There are 1 low-, 27 moderate-, 41 middle-, and 40 upper-income tracts. The AA meets the legal requirements of the regulation and does not arbitrarily exclude low- or moderate-income (LMI) geographies.

The following table summarizes the demographic information for this AA.

<b>Demographic Information for the NE Pima County AA</b>					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	109	1%	25%	37%	37%
Population by Geography	475,242	1%	29%	37%	33%
Owner-Occupied Housing by Geography	122,445	0%	20%	39%	41%
Businesses by Geography	32,581	1%	26%	41%	32%
Family Distribution by Income Level	122,433	18%	18%	21%	43%
Census Median Family Income (MFI)		\$44,466	Median Housing Value		\$118,807
Housing and Urban Development (HUD)-Adjusted MFI: 2006		\$52,400	Families Below the Poverty Level		12%
HUD-Adjusted MFI: 2007		\$52,400	Unemployment Rate		3.7%

Source: 2000 U.S. Census Data

The economy of Tucson is overwhelmingly based in government, including schools and universities, military, and local county, city, and tribal governments. Major industries include services, retail trade, finance/insurance/real estate, construction, and manufacturing. According to June 30, 2005, Dun & Bradstreet (D & B) Business Data for Pima County, the services industry makes up the largest portion of the county’s businesses at 40 percent. The second largest is retail trade at 15 percent, followed by finance/insurance/real estate at 11 percent.

The U.S. Army Intelligence Center and Fort Huachuca employ more than 13 thousand people in Pima County. Other major employers include: Raytheon Missile Systems, University of Arizona, Davis-Monthan Air Force Base, Wal-Mart Stores, Inc., and Phelps Dodge Mining Company. Over the last three years, unemployment for the area has fallen from 4.4 percent to 3.7 percent primarily due to the real estate market. Employment trends, as of November 2006, show construction with the largest increase (10 percent) from a year ago, followed by business and professional services (8 percent), and financial activities (nearly 8 percent).

Competition for financial services is strong. The June 30, 2007 FDIC Deposit Market Share Report shows 20 financial institutions competed for over \$10 billion of insured deposits. The

nature of the competition includes four nation-wide financial institutions with 113 branches, comprising over 70 percent of the deposit market share. Since the last CRA examination, three banks have opened in the AA, adding to the direct competition. CCB has a small 0.59 percent share in the marketplace and does not operate outside the AA. The majority of the other competitors have a significant presence and access to other loans and deposits outside the local market.

There are three similarly situated banks to CCB in the marketplace. The similarities are identified in terms of size, geographic presence, and line of business. One is a larger local bank that opened up a few years before CCB and operates only inside the AA. Another is a smaller institution that is very close in size to CCB and operates only inside the AA. The third is also a larger bank, but like CCB, it focuses on small business lending. These institutions were used to evaluate the bank's LTD ratio.

To gather more information on the nature of the economic conditions and potential community development opportunities in the AA, we contacted a local community leader during this examination. The contact reported economic conditions were decent and for the most part local financial institutions are supportive in meeting the communities credit needs. The contact is from the local Chamber of Commerce and identified the primary credit needs as loans to small businesses and affordable housing. The contact said that the major long-term issues facing Pima County are affordable housing and start-up businesses.

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**

CCB's performance under the lending test is satisfactory. The bank's LTD ratio was reasonable given its size, financial condition, and AA credit needs. CCB was found to have reasonable penetration among borrowers of different income levels and businesses of different sizes. CCB's geographical distribution of loans was reasonable. More weight was given to the distribution of loans in moderate-income CTs due to the fact that the AA only has one low-income CT. Therefore, opportunities for the bank to make business loans in this CT were very limited.

All criteria of the lending test are documented below.

### **Loan-to-Deposit Ratio**

The bank's LTD ratio of 84 percent is reasonable given the bank's age, size, financial condition, and AA credit needs. This meets the standard for satisfactory performance. CCB's LTD ratio ranged from a quarterly low of 71 percent to a quarterly high of 103 percent during the time of the last examination. It is also notable that CCB's average LTD ratio does not reflect its entire home mortgage lending activity, as the bank sells mortgages in the secondary market. Uniform Bank Performance Reports from the third quarter 2003 through the first quarter 2008 were used to compare CCB with three similarly situated banks.

Bank	Average Quarterly Loan-to-Deposit Ratio
<b>Canyon Community Bank, N.A.</b>	<b>84%</b>
Bank A	83%
Bank B	98%
Bank C	97%

Source: Uniform Bank Performance Report

### Lending in Assessment Area

A majority of CCB’s primary loan products were made within the bank's AA. This meets the standard for satisfactory performance. The following table details the bank’s lending within the AA by number and dollar amount of loans. Sixty-one percent of the loans originated in these primary loan products were made within the AA.

Lending in NE Pima AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	77	57	59	43	136	14,608	58	10,745	42	25,353
Home Refinance	38	63	22	37	60	7,175	62	4,397	38	11,572
Home Improvement	3	75	1	25	4	479	92	40	8	519
Business	17	85	3	15	20	6,201	89	740	11	6,941
<b>Totals</b>	135	61	85	39	220	28,463	<b>64</b>	15,922	36	44,385

Source: 100% HMDA data (2006-2007 & YTD 2008) for home loans; loan sample for business loans.

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

The distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes. Credit needs identified for the AA were loans to small businesses and loans for affordable housing.

#### Business Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. This loan penetration into small businesses reflects a responsiveness on the bank’s part, as one of the credit needs identified in the AA was loans to small businesses. Sixty-five percent of the number of the bank’s business loans originated and purchased during the loan sampling period were made to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. This is considered excellent compared to demographic data that shows 66 percent of the area’s businesses are considered small businesses.

The following table shows the distribution of commercial loans among different sized businesses in the AA.

<b>Borrower Distribution of Loans to Businesses in NE Pima AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	66	5	29	100%
% of Bank Loans in AA by #	<b>65</b>	25	10	100%
% of Bank Loans in AA by \$	84	16	N/A	100%

Source: Loan sample; Dunn and Bradstreet data.

### Home Loans

The distribution of home loans to borrowers reflects reasonable penetration among borrowers of different income levels. The penetration among low-income borrowers in the AA is reasonable for home purchase loans, but poor for home refinance loans. CCB had excellent penetration among moderate-income borrowers for both home purchase and home refinance loans. While the distribution of home improvement loans to LMI borrowers is poor, this received very little weight as only two percent of the home loans originated were home improvement loans. In reaching this conclusion, we also considered the AA's poverty rate of 12 percent and the median housing value of \$119 thousand, which make it very difficult for low-income borrowers to qualify for home loans. However, the bank is reaching out to LMI borrowers through affordable housing programs with the Federal Home Loan Bank. These programs target LMI borrowers and help them purchase homes by tripling their down payment (up to \$15 thousand) through a matched savings program.

Overall, the distribution of total home loans to low-income borrowers reflects a reasonable penetration. Twelve percent of the total home loans originated were to low-income borrowers, which compares reasonably to the 18 percent of low-income families in the AA. The distribution of home loans to moderate-income borrowers reflects an excellent penetration. Of the 118 home loans originated in the AA, 32 percent were to moderate-income borrowers. This significantly exceeds the 18 percent of moderate-income families in the AA.

The following table shows the distribution of home loan products among borrowers of different income levels as detailed above.

<b>Borrower Distribution of Residential Real Estate Loans in NE Pima AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	18	<b>14</b>	18	<b>36</b>	21	16	43	33
Home Refinance	18	<b>8</b>	18	<b>26</b>	21	21	43	45
Home Improvement	18	N/A	18	N/A	21	N/A	43	67
<b>Total</b>	18	<b>12</b>	18	<b>32</b>	21	17	43	37

Source: 100% data reported under HMDA 2006-2007 & YTD 2008; U.S. Census data.

**Geographic Distribution of Loans**

The bank’s geographic distribution of loans reflects reasonable dispersion throughout the CTs of different income levels. CCB’s geographic distribution of both business and home loans is reasonable given its branch locations, product offerings, and staffing. No unexplained lending gaps were identified.

*Business Loans*

The geographic distribution of loans to businesses reflects reasonable dispersion among CTs of different income levels. More weight was given to the distribution of loans to businesses in moderate-income CT’s because there is only one low-income CT in the AA. Therefore, opportunities for the bank to make business loans in this CT are very limited. However, the bank originated 25 percent of its business loans to businesses located in moderate-income CTs. This is reasonable when considering that 26 percent of the businesses in the AA are located within moderate-income CTs.

The following table shows the distribution of commercial loans among different size businesses in the AA, based on our sample.

<b>Geographic Distribution of Loans to Businesses in NE Pima AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business	1	N/A	26	<b>25</b>	41	20	32	55

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

*Home Loans*

The bank’s geographic distribution of home loans in this AA reflects a reasonable dispersion throughout CTs of different income levels. More weight was given to the distribution of home loans in moderate-income CTs because there is only one low-income CT in the AA. Therefore, opportunities for the bank to make home loans in this CT were very limited. However, the percentage of home purchase loans originated in moderate-income CTs is excellent. The percentage of home refinance loans originated in moderate-income CTs is reasonable. While the level of home improvement loans originated in moderate-income CTs is poor, this received very little weight as only two percent of the home loans originated were home improvement loans.

Overall, CCB’s geographic distribution of home loans reflects a reasonable dispersion in moderate-income CTs because 19 percent of the total home loans originated were in moderate-income CTs. This is considered reasonable compared to demographic data that show 20 percent of owner occupied homes are in moderate-income CTs.

The following table details the bank’s performance as compared to the percentage of owner-occupied housing units in each CT category.

**Geographic Distribution of Residential Real Estate Loans in NE Pima AA**

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans						
Home Purchase	N/A	N/A	20	<b>25</b>	39	50	41	25
Home Refinance	N/A	N/A	20	<b>11</b>	39	50	41	39
Home Improvement	N/A	N/A	20	N/A	39	67	41	33
<b>Total</b>	N/A	N/A	20	<b>19</b>	39	51	41	30

Source: 100% data reported under HMDA 2006-2007 & YTD 2008; U.S. Census data.

### Responses to Complaints

No complaints have been received by the bank or 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.