



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

PUBLIC DISCLOSURE

July 10, 2000

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Canyon National Bank
Charter Number 23561**

**1711 East Palm Canyon Drive
Palm Springs, California 92264**

**Comptroller of the Currency
1925 Palomar Oaks Way, Suite 202
Carlsbad, California 92008**

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 **CANYON NATIONAL BANK** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of **July 10, 2000**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated “**Outstanding.**”

- Lending in the Assessment Area (AA) exceeds the standard for satisfactory performance.
- The distribution of both business and consumer loans reflects excellent dispersion throughout the AA.
- The bank’s distribution of business loans reflects a high level of lending to small businesses, which shows a strong level of responsiveness to an identified credit need in the AA.
- The distribution of consumer loans reflects good penetration among individuals of different income levels.
- The loan-to-deposit ratio meets the standard for satisfactory performance.
- The bank has taken significant steps to increase access to financial services for Native Americans, who have historically lacked access to these services. This further enhances the bank’s record of meeting the credit needs of the community.

DESCRIPTION OF INSTITUTION:

Canyon National Bank (CNB) is a community bank located in Palm Springs, California. Its business strategy focuses on serving the needs of small businesses in the Coachella Valley. It operates two Automated Teller Machines (ATMs) at its main office.

CNB is independently owned. The Agua Caliente Band of Cahuilla Indians (a Tribe), acting through the Agua Development Authority, a branch of the government of the Tribe, owns about 45% of the bank's stock. The bank is not controlled by a holding company and it has no affiliates or subsidiaries.

This is the bank's first CRA examination since the bank opened on July 10, 1998. There are no legal or financial impediments to the bank's ability to meet the credit needs of its AA.

The bank provides a variety of lending products centered in commercial, construction, real estate, and consumer loans. Commercial loans, primarily to small businesses, represent 34% by number and 30% by dollar of the loans originated. The bank also has a significant amount of consumer loans by number, representing 29% of the loans originated. As of June 30, 2000, the bank had total assets of \$78.6 million, loans of \$47.2 million, and deposits of \$ 71.6 million.

The following chart reflects the loan portfolio by major product type based on loan originations since the bank opened.

Loans By Major Product Type - All Originations (July 10, 1998 - June 30, 2000)				
LOAN TYPE	Loan Dollars (millions)	Percent of Dollars	Number of Loans	Percent of Numbers
Commercial	\$29.8	30%	237	34%
Consumer	\$3.1	3%	202	29%
Real Estate	\$28.1	28%	143	20%
Construction	\$38.9	39%	122	17%
Total	\$99.9	100%	704	100%

DESCRIPTION OF ASSESSMENT AREA:

CNB's AA is situated in the Coachella Valley in the central part of Riverside County. It consists of all census tracts in the unincorporated area of Bermuda Dunes and the following eight cities: Palm Springs, Cathedral City, Rancho Mirage, Palm Desert, Indian Wells, La Quinta, Twenty-nine Palms, and Desert Hot Springs. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The total population of the AA was 153,500 in the 1990 census. Including seasonal residents, the population can nearly double during winter months because of the area's mild winter climate, leisure activities, and various popular sporting events.

Within the AA about 9% of the families are below the poverty level. According to the Department of Housing and Urban Development (HUD), the 1999 median income for the assessment area is \$47,200 and the 1999 Median Housing value was \$133,260 according to the California Association of Realtors.

The economy is strong and growing with low levels of unemployment. The economy is centered in tourism and agriculture. Numerous hotels and restaurants, the school districts, major hospitals, and the College of the Desert are the major employers. The Coachella Valley, the cradle of the desert resort cities, is one of the fastest growing geographical areas in California. Tourism has been the major growth factor, spurred especially in recent years by the improving economy. As a result, major retail, restaurant, and hotel chains have located in the area. According to recent economic reports, growth is expected to continue because of the climate and central location of the Valley. The bank's office is in close proximity to the many retail businesses in the heart of Palm Springs. The banking environment is highly competitive with several independent banks and branches of multinational and regional banks throughout the AA.

The tribal lands of the Agua Caliente Band of Cahuilla Indians, the Morongo Band of Mission Indians, the Cabazon Band of Mission Indians, the Twenty-nine Palms Band of Mission Indians, and the Torres-Martinez Band of Cahuilla Indians are located within the AA. We considered information from three community contacts. According to these contacts, there is an ongoing need for small business loans with flexible underwriting. A local Native American agency also reported a need for financing businesses on tribal lands.

The following table reflects the demographic composition of the AA by income level of census tracts.

Census Tract Income Level	Number of Tracts by Type	Percent of Tracts by Type	Percent of Families in Tracts	Percent of Businesses in Tracts
Low	0	0%	0%	0%
Moderate	3	21%	22%	22%
Middle	8	57%	51%	48%
Upper	3	21%	27%	30%
Total	14	100%	100%	100%

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Our conclusions are based on the lending activity from the date the bank opened on July 10, 1998, through June 30, 2000. We used loan data provided by the bank and tested it for accuracy. In addition to the general performance factors for evaluating small community banks, we considered the bank's outreach efforts to Native Americans, who have historically lacked access to financial services.

LOAN TO DEPOSIT RATIO

CNB's loan-to-deposit (LTD) ratio meets the standard for satisfactory performance. The bank's average LTD ratio for the seven quarters from when the bank opened through March 31, 2000, was 53 percent. The average ratio for the five most similarly situated banks in Riverside County was 63 percent for the same period. CNB's LTD ratio is reasonable because it is a newly opened bank. In addition, the bank's LTD ratio trend is upward, and in the most recent quarter CNB slightly exceeded the LTD ratio of its peer banks. For the purposes of this examination, similarly situated banks are banks of similar asset size located within the Riverside-San Bernardino County MSA.

LENDING IN ASSESSMENT AREA

CNB's lending in the AA exceeds the standard for satisfactory performance. During this review period, 87 percent (by number) and 85 percent (by dollar) of total loans were within the AA. Lending in the

AA would have been even higher had CNB, as a newly opened bank, not needed to purchase loans outside its AA as part of its initial growth strategy. Refer to the table below for details.

Lending Within the AA		
Total Loans by Number & Dollar (000)	Loans by Number & Dollar Within AA (000)	Percent of Loans by Number & Dollar in AA
704	613	87%
\$99,981	\$85,309	85%

GEOGRAPHIC DISTRIBUTION

Lending patterns compare favorably to the demographics of the area. The percentage of both business and consumer loans (by both dollar and number) originated in moderate-income census tracts significantly exceeds the percentage of moderate-income census tracts in the AA.

There are no low-income census tracts in the AA. The bank has made loans in all the census tracts in its AA, with the exception of the one tract that encompasses the Idyllwild Wilderness area, which is sparsely populated.

Businesses in moderate-income census tracts received 59% (by number) and 41% (by dollar) of the loans originated. This significantly exceeds the percentage of businesses in moderate-income census tracts in the AA. Consumer borrowers in moderate-income tracts received 65% (by number) and 61% (by dollar) of the loans made. This also significantly exceeds the percentage of moderate-income census tracts in the AA. Please refer to the following tables for specific information.

Geographic Distribution of Business Loans					
Income Characteristic of Census Tracts	Percent of Total Businesses	Number of Loans	Percent of Loans by Number	Loan Dollars (000)	Percent of Loans by Dollar

Low	0%	0	0%	\$0	0%
Moderate	22%	158	59%	\$17,209	41%
Middle	48%	61	23%	\$15,026	36%
Upper	30%	50	18%	\$9,414	23%
Total	100%	25	100%	\$41,649	100%
Geographic Distribution of Consumer Loans					
Income Characteristic of Census Tracts	Percent of Total Census Tracts	Number of Loans	Percent of Loans by Number	Loan Dollars (000)	Percent of Loans by Dollar
Low	0%	0	0%	\$0	0%
Moderate	21%	112	65%	\$1,499	61%
Middle	57%	27	16%	\$377	15%
Upper	21%	33	19%	\$601	24%
NA	0%	0	0%	\$0	0%
Total	100%	172	100%	\$2,477	100%

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES

The distribution of loans reflects good penetration among businesses of different sizes and individuals of different income levels. We randomly sampled twenty business loans and twenty consumer loans for this analysis.

These two loan types represent the highest number of loan originations made during the evaluation period. We placed greater weight on lending to businesses than consumers since business loans represented a significant volume of originations by both number and dollar volume.

The bank's distribution of business loans reflects a high level of lending to small businesses, which is an identified credit need in the AA. The percentage of loans (by number) granted to small businesses (those with revenues of less than \$1 million) significantly exceeds the percentage of small businesses in the AA. CNB originated 90 percent of its loans (by number) to small businesses, which compares favorably to the fact that only 76 percent of the businesses in the AA are small businesses. Based on

dollar volume, CNB compares similarly to the area’s demographics. We placed more weight on the number of loans made since loans to smaller businesses tend to be smaller in size. Refer to the following table for specific information.

Distribution of Business Loans by Revenues				
Revenues	Loan Dollars (000)	Percent of Dollars	Number of Loans	Percent of Numbers
<\$100,000	\$257	19%	8	40%
>\$100,000<\$250,000	\$190	14%	4	20%
>\$250,000<\$500,000	\$64	5%	2	10%
>\$500,000<\$1,000,000	\$480	36%	4	20
>\$1,000,000	\$350	26%	2	10%
Total	\$1,341	100%	20	100%

The portion of consumer loans made to moderate-income borrowers (by both number and dollar) significantly exceeds the portion of families that are moderate-income. Of the consumer loans originated, moderate-income borrowers received 40 percent (by number) and 37% (by dollar). This is significantly higher than the percentage of moderate-income families. Lending to low-income borrowers is adequate. Bank management believes that this is the result of a significant number of older citizens in the AA that live on fixed incomes (retirement and social security) and typically are not significant borrowers. In our analysis we placed more weight on the number of loans made since loans to low-and moderate-income individuals are typically smaller. Refer to the following table for specific information.

Distribution of Consumer Loans to Borrowers of Different Incomes

Borrower Income Level	Percent of Families	Loan Dollars (000)	Percent of Dollars	Number of Loans	Percent of Numbers
Low	21%	\$18	6%	3	15%
Moderate	19%	\$106	37%	8	40%
Middle	20%	\$32	11%	2	10%
Upper	40%	\$131	46%	7	35%
Total	100%	\$287	100%	20	100%

RESPONSE TO WRITTEN COMPLAINTS

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

RECORD OF COMPLIANCE WITH ANTI-DISCRIMINATION LAWS

Concurrently with this CRA examination, the OCC evaluated the bank's compliance with fair lending laws and regulations. We evaluated whether the loan terms for automobile loans were more favorable for male applicants than for female applicants over the last fifteen months. Our comparative file review revealed no evidence of discriminatory lending practices.

SERVICES

Canyon National Bank has dedicated time and resources to help meet the needs of its community in a variety of ways. In particular, CNB has taken a leadership role in increasing access to financial services for Native Americans. As described earlier, the bank's assessment area encompasses several tribal lands. Our community contacts revealed that Native Americans who live there often lack access to financial products and services for a number of reasons. For example, tribes and individual owners cannot financially encumber Indian trust land without the prior approval of the Bureau of Indian Affairs. This and other burdensome processes have discouraged lending of all types on Indian trust land for many years.

Significant efforts to overcome these impediments are beginning to produce positive results, including those of CNB as highlighted below. The Board and bank management are working closely with government agencies (including the Bureau of Indian Affairs), community groups, and other lenders in researching ways to best provide financial services that are needed by the Native American community.

- The bank's president is a founding board member of the *North American Native Bankers Association (NANBA)*. This is the first association of banks that are majority owned by Native Americans. NANBA researches and promotes ways to make loans and provide other financial services in Indian country.
- Bank officers have met with Native American groups to provide financial services expertise. For example, the bank has provided educational services on how tribes can form Native American owned banks. The formation of these banks helps increase access to financial services for Native Americans, who have been historically under-served by the financial services industry.
- The bank provided technical expertise to help a tribal leader secure the first-ever Native American title policy on Indian trust land in the area. This will enable Native Americans to more readily obtain financing from financial institutions to build or improve their homes on tribal lands.
- The bank helped finance the initial phase of the first master-planned commercial project in Palm Springs on tribal land. This is an innovative project because the borrower is the first Native American-owned company in Palm Springs to develop tribal land for the economic use and benefit of an Indian-owned business.