



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

May 15, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Canyon National Bank
Charter Number 23561**

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

**Office of the Comptroller of the Currency
Southern California South Field Office
1925 Palomar Oaks Way, Suite 202
Carlsbad, CA 92008**

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 “**Outstanding.**”

- Lending in the Assessment Area (AA) exceeds the standard for satisfactory performance.
- Lending patterns reflect good penetration among businesses of different sizes, especially small businesses. This demonstrates responsiveness to an identified credit need in the AA.
- The geographic distribution of business and residential real estate loans reflects excellent dispersion throughout the AA.
- The loan-to-deposit ratio meets the standard for satisfactory performance given the bank’s size, financial condition and AA credit needs.
- The bank provides financial and related services to increase access for Native Americans, who have historically lacked ready access to these services. This enhances the bank’s record of meeting the credit needs of the community.

DESCRIPTION OF INSTITUTION

Canyon National Bank (CNB) is a locally owned community bank headquartered in Palm Springs, California. The Agua Caliente Band of Cahuilla Indians (Tribe) owns approximately 45% of the bank’s stock. CNB’s business strategy focuses on serving the needs of small businesses in the Coachella Valley. As of December 31, 2005, the bank had three offices in the Palm Springs and Palm Desert areas. The main office is in close proximity to the many retail businesses in the heart of Palm Springs. Since the last CRA examination, CNB opened two branch offices, one in Palm Springs (Tahquitz branch) and one in Palm Desert. The Tahquitz office serves to facilitate providing banking services to Native Americans and Indian tribes. Each of the offices has at least one Automated Teller Machine (ATM).

There are no legal or financial impediments to the bank’s ability to meet the credit needs of its AA. As of December 31, 2005, the bank had total assets of \$239.2 million, loans of \$176.5 million, and deposits of \$218.5 million. Net loans represented 74% of total assets.

The bank is primarily a commercial lender. It provides a variety of loan products centered in business, construction and commercial real estate, residential real estate, and consumer loans. Commercial loans, primarily to small businesses, represented 84% by dollar of loans outstanding. Residential real estate loans represented 13% by dollar of loans outstanding. In addition to traditional banking products and services, the bank also provides ATM transaction processing, mortgage brokering, and management of leased Indian land through a Bureau of Indian Affairs program.

The following table reflects portfolio composition by major product type.

LOAN PORTFOLIO COMPOSITION		
As of December 31, 2005		
Loan Type	\$ Volume (000)	% of Portfolio
Commercial Real Estate and Construction	\$113,167	64%
Commercial	\$35,584	20%
1-4 Family Residential	\$23,293	13%
Consumer	\$4,457	3%
Total:	\$176,501	100%

Source: December 31, 2005 Call Report of Condition and Income

The last CRA examination as of July 2000 rated the bank's performance as "Outstanding".

DESCRIPTION OF THE ASSESSMENT AREA

The bank's AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The AA is situated in the Coachella Valley in the central part of Riverside County within the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA). The AA includes 67 census tracts in the unincorporated area of Bermuda Dunes and the cities of Cathedral City, Coachella, Desert Hot Springs, Indian Wells, Indio, La Quinta, Rancho Mirage, Thousand Palms, and Palm Desert. 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. 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.

Population in the AA was approximately 290,000 according to the 2000 U.S. Census. Median housing value in the area was \$130,941 with 56% of total housing units owner-occupied. The 2000 Census data reported median family income of \$47,448. The HUD adjusted median family income for 2005 was \$55,650.

Of the 67 census tracts, 2% are low-income, 39% are moderate-income, 37% are middle-income, and 22% are upper-income tracts. There are one low-income census tract and 26 moderate-income tracts. These LMI tracts are centered primarily in the eastern and northern portions of the AA.

The local economy is strong and growing. The Coachella Valley is a popular retirement and vacation destination and the travel-related, retail, and leisure industries are strong drivers behind the region's economy. Due to the relatively low cost of living, the area has attracted a well-trained, largely professional workforce that commutes to other areas during the workday. The Coachella Valley Economic Partnership reports the county's largest employers by industry are hotels and restaurants, retail, construction, government, and health care. The Los Angeles Economic Development Corporation projected that Riverside County will see the strongest employment gains in construction, government, and transportation/warehousing/utilities during 2006. Unemployment is expected to remain below 5%. The area has experienced strong

population growth in recent years, which is expected to continue into the foreseeable future.

The banking environment is highly competitive with strong competition from other independent banks such as Palm Desert National Bank, El Paseo Bank, and Pacific Western National Bank. The bank also competes with large banks with branches in the area.

Examiners contacted two community contacts in the Riverside-San Bernardino-Ontario MSA. These organizations focus on housing and economic development issues in the area. As the Palm Springs and surrounding areas have experienced considerable growth in recent years, identified credit needs include housing, small business lending and capacity building support for small businesses.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

CNB’s loan-to-deposit (LTD) ratio is reasonable and meets the standard for satisfactory performance. The bank’s quarterly average LTD ratio for the twenty-two quarters since the last CRA evaluation is 73%. The quarterly average LTD ratio for the four most similarly situated financial institutions in Riverside County is 72%. For the purposes of this examination, similarly situated banks are banks of similar asset size located in Riverside County.

Lending in Assessment Area

CNB’s lending in the AA exceeds the standard for satisfactory performance. For this analysis, we randomly tested twenty-four loans the bank originated or purchased during the evaluation period. We also analyzed the bank’s data reported under the Home Mortgage Disclosure Act (HMDA) for the same period. We found a substantial majority, 78 percent of loans (by number and dollar), were originated or purchased within the AA. Refer to the table below for details.

Loan Type	Number of Loans					Dollars of Loans (000’s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial loans	20	83%	4	17%	24	\$7,520	94%	\$522	6%	\$8,042
HMDA data	127	77%	37	23%	164	\$33,312	75%	\$11,202	25%	\$44,514
Totals	147	78%	41	22%	188	\$40,832	78%	\$11,724	22%	\$52,556

Source: sample of business loans and HMDA data.

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

The distribution of loans reflects good penetration among businesses of different sizes and individuals of different income levels. We tested twenty business loans CNB originated or purchased within the AA. We also analyzed the bank’s HMDA data of residential real estate loans.

The 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 and dollar volume granted to small businesses (those with revenues of less than \$1 million) compares well to the percentage of small businesses in the AA. Refer to the following table for specific information.

Table 2A – Borrower Distribution of Loans to Businesses in the Assessment Area		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	66%	5%
% of Bank Loans in AA by #	55%	45%
% of Bank Loans in AA by \$	60%	40%

* Demographic Data Source: 2005 Dun and Bradstreet; 29% of AA businesses did not report revenue data.

The distribution of residential real estate loans by borrower income level in low- and moderate-income census tracts is lower than the percentage of AA families that are in low- and moderate-income tracts. This is partly because the bank does not have offices throughout low- and moderate- income census tracts. We placed greater emphasis on lending to businesses than consumers since business loans represented a substantial volume of originations by both number and dollar volume. In addition, there are other financial institutions actively involved in providing home mortgage loans in these geographies that help meet community credit needs for this loan product. Refer to the following table for specific information.

Table 2 - Borrower Distribution of Residential Real Estate Loans in the Assessment Area								
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
HMDA	24%	1%	19%	11%	20%	19%	37%	69%

Source: 2000 U.S. Census data; 2004-2005 HMDA data.

Geographic Distribution of Loans

Lending patterns compare very favorably to the AA demographics. Based on the loan sample, the percentage of business loans by number originated in moderate-income census tracts exceeds the percentage of businesses in moderate-income census tracts in the AA. Business loans originated in moderate-income census tracts represented 35% (by number) of the loans originated, compared to 33% of businesses in moderate-income census tracts in the AA. Refer to the following table for specific information.

Table 3A – Geographic Distribution of Loans to Businesses in the Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Commercial loans	0%	0%	33%	35%	38%	35%	29%	30%

Source: 2005Dun and Bradstreet and loan sample of business loans.

The distribution of residential real estate loans also compares well to the distribution of owner-occupied units located in the AA geography income levels. HMDA data reflects that CNB originated 26% of the number of loans in moderate-income census tracts compared to 28% of owner-occupied units located in moderate-income census tracts in the AA. The bank has made loans in most of the census tracts in its AA except for one low-income census tract in the AA that encompasses the Idyllwild Wilderness area, which is sparsely populated. Refer to the following table for specific information.

Table 3 - Geographic Distribution of Residential Real Estate Loans in the Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
HMDA data	<1%	0%	28%	26%	37%	39%	35%	35%

Source: 2000 U.S. Census data and 2004-2005 data reported under HMDA.

Qualified Community Development Services

CNB provides mortgage brokering services for residential real estate loans under the Indian Home Loan Guarantee Program (Section 184) of the U.S. Department of Housing and Urban Development (HUD). The program assists Native American individuals and families, eligible tribes and Indian Housing Authorities with home ownership on trust land or land located in an approved Indian or Alaska Native area. During the evaluation period, the bank originated 16 loans totaling \$5.6 million under this program, representing 25% of the bank’s capital.

CNB originated loans to Indian tribes located within its AA and statewide. Most of these loans are guaranteed by the Bureau of Indian Affairs (BIA), and provide funds for development projects that benefit tribal members and low- and moderate-income geographies. During the evaluation period, the bank originated seven loans totaling \$7.9 million to the tribes, five of which have BIA guarantees.

An officer of the bank conducts outreach activities for Native Americans and Indian tribes, a historically underserved segment of the community. For example, in September 2005, bank officers made a presentation at the Indian Country Economic Development Conference to encourage tribal investments in economic development projects that serve their members and communities. These activities reflect the bank’s responsiveness to an identified need in the AA.

Responses to Complaints

The bank has not received any written complaints relating to its performance under the Community Reinvestment Act.

Fair Lending or Other Illegal Credit Practices Review

The OCC evaluated the bank's compliance with fair lending laws and regulations in August 2005. Examiners performed a comparative file analysis and determined the bank's compliance with fair lending laws and regulations was satisfactory. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.