



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 14, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Canyon Community Bank, National Association
Charter Number 24049**

**7981 North Oracle Road
Tucson, Arizona 85704**

**Comptroller of the Currency
ADC-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 (CCBNA) lending performance reflects a satisfactory response to community credit needs. This conclusion is based on the following results.

- The loan-to-deposit ratio 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 to businesses of different sizes.
- The geographic distribution of loans reflects a reasonable dispersion throughout the AA.

DESCRIPTION OF INSTITUTION

As of June 30, 2003, CCBNA was a \$43 million community bank located in Pima County in Tucson, Arizona. CCBNA operates out of a single office on North Oracle Road. It does not own or operate any deposit taking ATM's. The bank has not closed any branch offices or deposit taking ATMs during the evaluation period.

This de novo bank opened for business in October 2000, and this is the first CRA Performance Evaluation for the bank. The bank is an independent bank and not a subsidiary of a bank holding company. There are no affiliates.

The bank's primary lending focus is small business loans. In terms of dollars, commercial, commercial real estate, and construction and development loans represent 85% of the bank's total loan portfolio as of December 31, 2002. As of December 31, 2002, the bank's net loans to total assets ratio was 54%.

There are no financial or legal impediments that hinder the bank's ability to help meet the credit needs of the AA. There is no prior rating since this is a de novo bank.

DESCRIPTION OF NORTHEASTERN PIMA COUNTY ASSESSMENT AREA

CCBNA has designated 44 census tracts in Pima County, Arizona as its AA. There are 3 low-, 10 moderate-, 15 middle-, and 16 upper-income tracts. The AA meets the legal requirements of the regulation and does not arbitrarily exclude low- or moderate-income (LMI) geographies.

This table outlines some of the pertinent demographic and economic information for the AA:

| DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA | | |
|--|----------|---------|
| Population | | |
| Number of individuals | 264,081 | |
| Median Family Income (MFI) and % of families by income level | | |
| 2002 HUD-adjusted statewide MSA MFI | \$49,200 | |
| Percentage of low-income families | 18% | |
| Percentage of moderate-income families | 16% | |
| Percentage of middle-income families | 21% | |
| Percentage of upper-income families | 45% | |
| Geographies | | |
| | Number | Percent |
| Number and percentage of low-income tracts | 3 | 7 |
| Number and percentage of moderate-income tracts | 10 | 23 |
| Number and percentage of middle-income tracts | 15 | 34 |
| Number and percentage of upper-income tracts | 16 | 36 |
| Economic Indicators | | |
| Unemployment Rate (as of 12/31/02) | 4.9% | |

Source: U.S. Census Bureau, and Bureau of Labor Statistics

The economy of Tucson is overwhelmingly based in government, including schools and universities, military, and local county, city, and tribal governments. Tourism also plays a large part in the local economy, but there is no single employer to identify with that segment of the economy. Over the last three years, unemployment for the Tucson MSA has risen from 2.9% to 4.9%, due in part to the loss of jobs in the service sector which supports tourism. Decrease in tourism and travel in general has occurred since September 11, 2001.

Competition for financial services is strong. The June 30, 2002, FDIC deposit Market Share Report shows 17 financial institutions competed for over \$7 billion of insured deposits. The nature of the competition includes four branches of nation-wide financial institutions comprising over 74% of the deposit market share. Since the 2002 report, another de novo independent bank has opened close to CCBNA, adding to the direct competition. CCBNA has a small share, 0.31%, in the marketplace and does not operate outside the area. The majority of the other competitors have significant presences and access to other loans and deposits outside the local market.

There are three similarly situated banks to CCBNA 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 CCBNA and operates only inside the AA. Another is the smaller newly chartered independent bank mentioned above. The third is significantly larger in size, but like CCBNA, has no offices outside the AA, and also focuses on business lending. These institutions were used to evaluate the bank's loan-to-deposit (LTD) ratio.

During this examination, we contacted one community leader in the area to discuss economic

conditions and credit needs. The contact provides business consulting for small businesses, and identified the primary credit need as business loans in the \$10 thousand to \$100 thousand range.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period for this CRA examination is from inception of the bank October 10, 2000, through December 2002, except for the LTD ratio, which is calculated through June 2003. We looked at both the dollar amount of loans and the number of loans originated. An evaluation of the originations showed CCBNA's primary product line to be commercial loans.

| Loan Originations for Evaluation Period | Percentage of Dollar Amount of Loans | Percentage of Number of Loans |
|---|--------------------------------------|-------------------------------|
| Commercial Loan Originations as a % of Total Originations | 87% | 75% |

Source: Loan Originations October 2000-December 2002

After identifying the primary product, we took a random sample of 20 loans, and used them to determine the ratio of loans inside the AA. To evaluate the geographic and borrower distribution of loans, loans outside the AA were discarded and additional loans were then selected to fill in the sample of 20. Based on these samples, the bank's initial evaluation of its CRA performance in meeting the credit needs of the community is Satisfactory, as supported below.

Loan-to-Deposit Ratio

The bank's LTD ratio of 66% is reasonable given the bank's age, size, financial condition, and AA credit needs. It meets the standard for satisfactory performance. Uniform Bank Performance Reports from the fourth quarter 2000 through the second quarter 2003 were used to compare CCBNA with three similarly situated banks.

| Bank | Average Quarterly Loan-to-Deposit Ratio |
|------------------------------------|---|
| Canyon Community Bank, N.A. | 66% |
| Bank A | 91% |
| Bank B | 70% |
| Bank C | 78% |

Source: Uniform Bank Performance Report

While CCBNA's LTD ratio was lower than the three competitors, banks A and C are both substantially larger and have been open longer than CCBNA. Bank B, whose LTD ratio more nearly approximates CCBNA's, is slightly smaller, and also a de novo bank.

Lending in Assessment Area

A majority of the number and dollar amount of loans in the loan sample are inside the bank's AA. This meets the standards for satisfactory performance. Refer to the table below.

| Lending in Northeastern Pima County Assessment Area | | | | | | | | | | |
|---|-----------------|-----------|---------|----|----------|------------------|-----------|----------|----|---------|
| Loan Type | Number of Loans | | | | | Dollars of Loans | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ (000) | % | \$ (000) | % | |
| Commercial | 16 | 80 | 4 | 20 | 20 loans | 2,277 | 81 | 520 | 19 | \$2,797 |
| Totals | 16 | 80 | 4 | 20 | 100% | 2,277 | 81 | 520 | 19 | 100% |

Source: Original sample of 20 commercial loans

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

Given the demographics of the AA, the distribution of loans originated reflects a reasonable penetration among businesses of different sizes.

| Borrower Distribution of Loans to Businesses in Northeastern Pima County AA | | |
|---|--------------|--------------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 |
| % of AA Businesses* (the Demographic) | 73% | 6% |
| % of Bank Loans in AA by # | 65% | 35% |
| % of Bank Loans in AA by \$ | 52% | 48% |

Source: Second sample of loans; Dunn & Bradstreet data. *21% of AA businesses did not report revenue.

Although the bank's percentage of both the number and dollar of loans to borrowers with gross revenues of less than \$1 million is less than the demographic, we further evaluated the size of the loans the bank made. This is described in the following table.

| Borrower Distribution of Loans to Businesses by Loan Size in NE Pima County AA | | | | |
|--|-----------------|-------------------|------------------------------|--------------------------|
| Loan Size (000's) | Number of Loans | Percent of Number | Dollar Volume of Loans (000) | Percent of Dollar Volume |
| \$0-\$50,000 | 6 | 30% | \$205 | 7% |
| \$50,001-\$100,000 | 5 | 25% | \$364 | 13% |
| \$100,001- \$250,000 | 7 | 35% | \$1126 | 41% |
| >\$250,000 | 2 | 10% | \$1069 | 39% |

Source: Second sample of 20 commercial loans

All of the loans are less than \$1 million dollars, and substantially all of them are \$250 thousand or less. Over half of the number of the loans also meet the community contact's description of the most needed type of loans between \$10 thousand and \$100 thousand.

Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion throughout the AA. CCBNA's penetration of the number and dollar amount of loans in low-income geographies actually exceeds the demographic. The penetration of the number and dollar amount of loans in moderate-income tracts is below, but near to the demographic.

| Geographic Distribution of Loans to Businesses in NE Pima County AA | | | | | | | | |
|---|--------------------|------------------|--------------------|------------------|--------------------|------------------|--------------------|------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Businesses | % of # of Loans | % of AA Businesses | % of # of Loans | % of AA Businesses | % of # of Loans | % of AA Businesses | % of # of Loans |
| Commercial | 5% | 10% | 22% | 20% | 28% | 15% | 45% | 55% |
| | | % of \$ of Loans | | % of \$ of Loans | | % of \$ of Loans | | % of \$ of Loans |
| | | 7% | | 15% | | 6% | | 72% |

Source: Sample of loans; Dunn & Bradstreet data; census data.

Responses to Complaints

CCBNA has not received any complaints about its performance in helping to meet AA needs during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.