



## **PUBLIC DISCLOSURE**

November 10, 2014

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

High Desert Bank  
Charter Number 718045

1000 SW Disk Drive  
Bend, OR 97702

Office of the Comptroller of the Currency

101 Stewart Street  
Suite 1010  
Seattle, WA 98101

**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".**

The following major factors support High Desert Bank's (High Desert Bank or Bank) rating:

- High Desert Bank's loan-to-deposit (LTD) ratio exceeds peer averages and is more than reasonable.
- A substantial majority of the Bank's lending activity is inside its delineated assessment area (AA).
- The Bank's distribution of loans to businesses of different sizes reflects reasonable penetration compared to area demographics.
- The Bank's geographic distribution of business loans reflects excellent distribution throughout the AA compared to area demographics.
- The Bank has not received any written complaints about its performance under the Community Reinvestment Act (CRA) during the evaluation period.

**SCOPE OF EXAMINATION**

This examination evaluates High Desert Bank's performance under the CRA. This is the Bank's first CRA examination conducted by the Office of the Comptroller of the Currency (OCC). High Desert Bank was formerly regulated by the Office of Thrift Supervision (OTS). We assessed performance pursuant to the CRA over an evaluation period from July 1, 2009 through September 12, 2014. Our lending analysis consisted of a review of 30 commercial loans the Bank originated in 2013 and through September 2014. We focused our review on commercial loans, since High Desert Bank did not originate a significant volume of any other type of loan during this review period.

**DESCRIPTION OF INSTITUTION**

High Desert Bank is a federally chartered stock institution headquartered in Bend, Oregon. The Bank began operations on September 26, 2007, as a subsidiary of Capital Bank Corporation (CBC). On November 9, 2012, CBC sold its 55 percent interest in High Desert Bank to a group of investors. Currently, the Bank has no relationships with a holding company or affiliates.

High Desert Bank's operations consist of one main office located in an upper-income census tract (CT) in the Bend-Redmond Metropolitan Statistical Area (MSA). The Bank's branch is open from 9:00 AM to 5:00 PM Monday through Friday. The Bank does not have any ATMs. The only other operations consist of a loan production office in Portland, Oregon, which the Bank opened in 2013.

High Desert Bank's current business focus is home mortgage lending. However, during the review period, the Bank's primary business focus was commercial and residential real estate lending. From September 26, 2007 until November 9, 2012, the Bank was a subsidiary of CBC, whose business model focused on commercial lending. The Bank offers a variety of commercial loan products to meet the credit needs of small businesses. High Desert Bank also offers a variety of consumer mortgage loan products.

As of June 30, 2014, High Desert Bank reported total assets of \$28 million, total deposits of \$26 million and total equity capital of \$2 million. The following chart summarizes the loan portfolio by major loan type.

<b>High Desert Bank Outstanding Balances by Major Credit Type As of June 30, 2014</b>		
<i>Loan Type</i>	<i>(\$000's)</i>	<i>Percent</i>
Commercial Real Estate (RE)	\$8,582	39.52%
1-4 Family Residential RE	\$ 7,557	34.80%
Commercial-1 industrial	\$ 3,752	17.28%
Other Construction & Land Development	\$ 556	2.56%
Consumer (including Home Equity)	\$ 556	2.56%
Other	\$ 712	3.28%
<b>Total</b>	<b>\$21,715</b>	<b>100.00%</b>

During most of this evaluation period, the Bank operated under an Order to Cease & Desist (Order), which required significant time, staff efforts, and financial resources. Despite working under the Order, Bank management remained focused on meeting the credit needs of its community. We considered these contextual factors when reaching our conclusions concerning the Bank's CRA performance.

High Desert Bank received a "Satisfactory" rating under the Small Bank CRA procedures at the prior CRA examination conducted by the OTS on July 23, 2009.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

High Desert Bank has designated Deschutes County in the Bend-Redmond MSA as its AA. The county is located in central Oregon, on the eastern edge of the Cascade Range along the Deschutes River. The City of Bend is the county seat of Deschutes County and the principal city in the Bend-Redmond MSA. Based on the 2010 Census, the AA contains 24 CTs. There are no low-income CTs in the county; 17 percent of the CTs are moderate-income, 62 percent are middle-income, and 21 percent are upper-income. The Bank's AA meets the requirements of the regulation and does not arbitrarily exclude low or moderate income geographies.

Economically, Bend started as a logging town. However, it is now identified as a gateway to many outdoor sports, including mountain biking, fishing, hiking, camping, and skiing. Consequently, tourism is one of Bend's largest employment sectors. Bend's primary industries are tourism; healthcare and social services; professional,

scientific and technical services; products manufacturing; and recreation and transportation equipment. As of 2014, the top ten private regional employers are St. Charles Medical Center, Les Schwab Tire Centers, Sunriver Resort, Mt. Bachelor, Bright Wood Corporation, IBEX Global, Wal-Mart, Bend Memorial Clinic, McDonald's, and Safeway.

The 2014 Department of Housing and Urban Development (HUD) adjusted median family income is \$62,400. As of September 2014, Bend's unemployment rate was 6.6 percent, which is higher than the national unemployment rate of 5.9 percent. However, this is a significant reduction from the high unemployment rate of 16 percent, which occurred as a result of significant deterioration in the local housing market which began in late 2007. An additional blow to the local economy came from the collapse of the local aviation industry in 2009 when Cessna shut down its local plant and Epic Aircraft, another major employer, filed for bankruptcy. Each of these events resulted in approximately 200 job losses.

The banking environment in the Bank's AA is competitive. The June 30, 2014, FDIC Deposit Market Share Report indicates that nine institutions compete for deposits in the AA. High Desert Bank has a deposit market share of less than one percent. Bank of the Cascades; Wells Fargo Bank, N.A.; and U.S. Bank, N.A. hold 65 percent of the deposits. The banks competing for deposits also compete for loans.

We contacted a community development organization to discuss credit and community development needs. The organization we contacted focuses on attracting businesses to the area that market and sell their products outside of the local communities. The objective is to bring in money to the Bend-Redmond MSA from businesses and individuals located outside the MSA. The organization also provides financial support and education to start-up and small businesses. The contact noted that financial institutions are generally doing a good job of providing loans to businesses that meet standard lending criteria. However, the contact noted there is a need for banks to provide both technical and financial support to the organization's programs that provide education and financial support to small and start-up businesses.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

High Desert Bank's performance under the Lending Test is "Satisfactory". The Bank exceeds the standard for satisfactory performance in three of the tests and meets the standard in one of the tests.

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

The Bank's LTD ratio exceeds the standard for satisfactory performance and is more than reasonable. We evaluated the Bank's quarterly average LTD ratio for the 20 quarters, from the Bank's previous CRA examination in 2009 through June 2014. During this period, the Bank's ratio ranged from a quarterly low of 67 percent to a quarterly high of 94 percent. We compared the Bank to five other banks of similar

focus, with consideration given to the banks' asset size. High Desert Bank is the smallest in asset size of any of the comparable banks. The average LTD ratios for the comparable banks for 20 quarters ranged from 75 percent to 80 percent. High Desert Bank's average LTD ratio for the 20 quarters is 82 percent, which exceeds the peer average ratios and reflects a more than reasonable level of lending.

**Lending in Assessment Area**

High Desert Bank granted a substantial majority of its loans, in terms of both number and dollar volume, inside its AA. This exceeds the standard for satisfactory performance. As noted in Table 1 below, the Bank granted 90 percent of the number of loans and 91 percent of the dollar volume within its delineated AA.

<b>Table 1 – Lending in the Bend-Redmond MSA AA</b>										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Small Business	27	90%	3	10%	30	3,555	91%	373	9%	\$3,928

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

The Bank's distribution of loans to businesses of different sizes reflects reasonable penetration and meets the standard for satisfactory performance. The Bank originated 72 percent of the number and 77 percent of the dollar volume of its business loans to small business borrowers in its AA. The portion of loans by number is near the demographic comparator; and the portion of loans by dollar volume exceeds the demographic comparator. See Table 2 below for details.

<b>Table 2 – Borrower Distribution of Loans to Businesses in the Bend-Redmond MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	75%	3%	22%	100%
% of Bank Loans in AA by #	72%	28%	0%	100%
% of Bank Loans in AA by \$	77%	23%	0%	100%

**Geographic Distribution of Loans**

The geographic distribution of business loans reflects excellent distribution throughout the AA compared to area demographics. The portion of loans to businesses in moderate-income CTs meets the demographic comparator, which exceeds the standard for satisfactory performance. There are no low-income CTs in the AA. Please see Table 3 below for details.

Source: 2010 U.S. Census data

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 Loans	0%	0%	19%	19%	58%	33%	23%	48%

### **Responses to Complaints**

High Desert Bank did not receive any complaints about its performance under the CRA during the evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 CFR 25.28(c), or 12 CFR 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.