



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

February 19, 2013

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

Canyon Community Bank, National Association  
Charter Number 24049

7981 North Oracle Road  
Tucson, AZ 85704

Office of the Comptroller of the Currency

Phoenix Field Office  
9633 South 48th Street, Suite 265  
Phoenix, AZ 85044-8629

**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 substantial 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**

CCB was evaluated under the Small Bank Examination procedures, which include a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The lending test covered the bank's performance from January 1, 2010, through December 31, 2011, as this period is representative of the bank's lending strategy since the last CRA examination. 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. To evaluate the bank's business lending performance, we selected a sample of 20 business loans. The bank reports data under the requirements of the Home Mortgage Disclosure Act (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.

**DESCRIPTION OF INSTITUTION**

CCB is a community bank chartered in October 2000. It is located in the northeast section of Pima County, in Tucson, Arizona. As of December 31, 2012, CCB had approximately \$86 million in total assets and net total loans of \$38 million, or 44 percent of total assets. CCB is wholly owned by Canyon Bancorporation, Inc., a one-bank holding company with consolidated assets of \$86 million. There are no affiliates. CCB currently operates a main office and three branches all located in northeast Pima County. Each branch has its own deposit-taking ATM on-site.

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 July 7, 2008 CRA examination.

## DESCRIPTION OF ASSESSMENT AREA

CCB has designated Pima County, Arizona as its AA which is the Tucson, Arizona metropolitan statistical area (MSA). There are 10 low-, 61 moderate-, 64 middle-, and 63 upper-income tracts. The AA meets the legal requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The following table summarizes the demographic information for this AA.

Demographic Information for the Tucson MSA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	198	5%	31%	32%	32%
Population by Geography	843,746	4%	34%	33%	29%
Owner-Occupied Housing by Geography	366,737	2%	25%	36%	37%
Businesses by Geography	89,209	3%	25%	33%	39%
Family Distribution by Income Level	213,704	20%	19%	21%	40%
Census Median Family Income (MFI)		\$44,496	Median Housing Value		\$111,290
HUD-Adjusted MFI: 2010		\$59,600	Families Below the Poverty Level		13%
HUD-Adjusted MFI: 2011		\$59,600	Unemployment Rate		3.2%

Source: 2000 U.S. Census Data

The economy of Tucson is largely dominated by governmental entities, 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 the 2011 Business Data for Pima County, the services industry represents the largest portion of the county's businesses at 43 percent. The next largest industries are retail trade and finance/insurance/real estate, both at 9 percent. The Bureau of Labor Statistics reported that Tucson had an unemployment rate of 7.6 percent as of March 2012, below the state of Arizona rate of 8.6 percent.

The U.S. Army Intelligence Center is the largest employer in Pima County. Much of Tucson's economic development has been centered in the development of the University of Arizona, which is currently the second largest employer in the city. Davis-Monthan Air Force Base, located on the southeastern edge of the city, is another large employer. The city of Tucson is also a major hub for the Union Pacific Railroad's Sunset Route that links the Los Angeles ports with the South and Southeast regions of the country.

Competition for financial services is strong. The June 30, 2012 FDIC Deposit Market Share Report shows 18 financial institutions competed for \$12.2 billion of insured deposits. The nature of the competition includes four nation-wide financial institutions with 129 branches, comprising over 73 percent of the deposit market share. CCB has a small 0.63 percent share of the marketplace and the institution does not operate outside the AA. The majority of the 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 larger bank that focuses on consumer lending and is a deposit competitor operating outside the Tucson MSA. 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 prior to the examination. The contact reported that economic conditions remained stagnant and many residents remain underemployed or unemployed. Generally, local financial institutions are supportive in meeting the communities credit needs but tightening underwriting standards has provided barriers for low income residents. The contact is from a local non-profit affordable housing organization and identified the primary credit needs as loans to small businesses for expansion and acquiring assets.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

CCB’s performance under the lending test is satisfactory. The bank’s LTD ratio is reasonable given the bank’s age, size, financial condition, and AA credit needs. A substantial majority of the bank’s primary loan products were made within the bank’s AA. CCB has reasonable penetration among borrowers of different income levels and businesses of different sizes. CCB’s geographical distribution of loans is reasonable. More weight was given to the distribution of loans in moderate-income census tracts (CT) due to the fact that the AA only has ten low-income CTs. Therefore, opportunities for the bank to make business loans in these CTs were limited.

### Loan-to-Deposit Ratio

CCB’s LTD ratio is reasonable given the bank’s age, size, financial condition, and the credit needs of the AA. The bank’s quarterly average LTD ratio for the last 18 quarters was compared with other financial institutions operating within the AA. These institutions were identified by the bank as competitors. The results are summarized below.

Bank	Average Quarterly Loan-to-Deposit Ratio
Canyon Community Bank, N.A.	65%
Bank A	91%
Bank B	87%
Bank C	89%

Source: Uniform Bank Performance Report

Although the bank’s LTD is lower than the average of competitors, there are no true comparables for CCB in its AA. The competitors used in the comparison above include

one \$4 billion institution with statewide branches, one \$228 million institution that also operates outside the AA, and one local institution with assets of \$314 million. A number of circumstances placed downward pressure on the bank’s LTD ratio. These include external factors such as the current economic conditions that triggered the bank to cease acquisition, development, and construction lending for a period of time and a high level of competition, which affected all banks in the Tucson MSA. The LTD ratio ranged from a quarterly low of 47 percent to a quarterly high of 91 percent during the time of the last examination. CCB’s average LTD ratio also does not reflect its entire home mortgage lending activity, as the bank sells mortgages in the secondary market. Deposits have remained stable over the assessment period.

**Lending in Assessment Area**

A substantial majority of the bank’s primary loan products were made inside the bank’s AA. Approximately 84 percent of the bank’s primary loans originated or purchased during the loan sampling period were made within the AA. This meets the standard for outstanding performance.

<b>Lending in Tucson MSA</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	122	85	21	15	143	16,348	84	3,049	16	19,397
Home Refinance	120	82	26	18	146	25,384	83	5,218	17	30,602
Home Improvement	0	0	0	0	0	0	0	0	0	0
Commercial	16	80	4	20	20	2,719	84	537	17	3,256
<b>Totals</b>	<b>258</b>	<b>84</b>	<b>51</b>	<b>17</b>	<b>309</b>	<b>44,451</b>	<b>83</b>	<b>8,804</b>	<b>17</b>	<b>53,255</b>

Source: 100% data reported under HMDA 2010-2011 HMDA; 2000 U.S. Census data

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

The borrower distribution of commercial and residential real estate loans originated in the AA reflects reasonable penetration. The number of home loans to low- and moderate-income borrowers exceeded the standard, and commercial loans to small businesses met the standard.

*Home Loans*

The distribution of home loans to borrowers reflects excellent penetration among borrowers of different income levels. The number of loans to low- and moderate-income borrowers exceeds the comparative ratio standard. Twenty-three percent of the total home loans originated were to low-income borrowers, which exceeds the 20 percent of low-income families in the Tucson MSA. In addition, 23 percent of the total

home loans originated were to moderate-income borrowers. This also exceeds the 19 percent of moderate-income families in the Tucson MSA. We also noted that 13 percent of families in the AA live below the poverty level. As a result, it is harder for these low-income families to qualify for residential real estate loans especially when the Median Housing Value is \$111,290 for the AA. This is further support for the bank’s excellent penetration to low- and moderate-income borrowers.

The following table shows the distribution of home loan products among borrowers of different income levels as detailed above. The “percentage of number of loans” columns do not include loans that were reported as NA for borrower income. Almost four percent of HMDA reportable home loans were reported NA for borrower income.

<b>Borrower Distribution of Residential Real Estate Loans in Tucson MSA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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	20	36	19	27	21	11	40	20
Home Improvement	20	NA	19	NA	21	NA	40	NA
Home Refinance	20	8	19	19	21	23	40	48
<b>Total</b>	20	23	19	23	21	17	40	34

Source: 100% data reported under HMDA 2010-2011 HMDA; 2000 U.S. Census data

*Lending to Business of Different Sizes*

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. The bank meets the standard for loans to businesses with revenues of one million or less. According to 2000 US Census Data, 66 percent of businesses located in the assessment area are small businesses. Sixty-five percent of the number of the bank’s commercial loans originated and purchased during the evaluation period were made to small businesses. Forty-three percent of the dollar amount of loans originated or purchased during the evaluation period were made to small businesses. Based on the loan size as proxy for the two loans missing revenue data, it would be reasonable that one or both of these loans were made to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less.

<b>Borrower Distribution of Loans to Businesses in Pima County AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	66	3	31	100
% of Bank Loans in AA by #	65	25	10	100
% of Bank Loans in AA by \$	43	48	9	100

Source: 2000 U.S. Census data; Loan Sample

**Geographic Distribution of Loans**

The bank’s geographic distribution of loans reflects reasonable dispersion throughout CTs of different income levels. Dispersion of both home and commercial loans meet the standard for satisfactory performance.

*Home Loans*

The bank’s geographic distribution of home loans in the Tucson MSA reflects a reasonable dispersion throughout CTs of different income levels. The bank’s branches are only located in the northwest corner of the Tucson MSA. This area consists mostly of upper- and middle-income CTs. Therefore, the bank’s opportunities to make home loans to low- and moderate-income CTs are limited.

The bank made three percent of their home loans to low-income CTs, which compares favorably to the AAs two percent of owner occupied housing in low-income CTs. However, 11 percent of home loans were originated in moderate-income CTs which is lower than the demographic comparator of 25 percent. This is likely due to the bank’s new AA designation that includes all of Pima County. As mentioned, the majority of the CTs surrounding the bank’s locations are upper- and middle-income CTs. As can be seen in the table below, a larger percentage of lending was to borrowers located in upper- and middle-income CTs. This is consistent with the bank’s locations and home lending activity seen at other banks in the area.

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

<b>Geographic Distribution of Residential Real Estate Loans in Tucson MSA</b>								
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
Home Purchase	2	6	25	20	36	32	37	42
Home Refinance	2	N/A	25	1	36	31	37	68
Home Improvement	2	N/A	25	N/A	36	N/A	37	N/A
<b>Total</b>	<b>2</b>	<b>3</b>	<b>25</b>	<b>11</b>	<b>36</b>	<b>31</b>	<b>37</b>	<b>55</b>

*Source: 100% data reported under HMDA 2010-2012 HMDA; U.S. Census data*

*Commercial Loans*

The geographic distribution of loans to businesses reflects reasonable dispersion among CTs of different income levels. Within the AA, there are only 10 low-income CTs. In addition, only three percent of all businesses in the assessment area are located in low-income CTs tracts. Therefore, opportunities to make commercial loans in low-income CTs are limited. It is considered reasonable that no loans were made to businesses located in low-income CTs. The bank originated or purchased 35 percent of

commercial loans to businesses located in moderate-income CTs. This is excellent penetration considering that only 25 percent of all businesses in the AA are located in moderate-income CTs.

Geographic Distribution of Loans to Businesses in Pima County AA								
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	3	N/A	25	35	33	15	39	50

Source: Loan sample; 2000 U.S. Census data.

### Responses to Complaints

No complaints have been received by the bank or the OCC relating to the bank’s CRA performance during this evaluation period.

### Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 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 assessment area 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.