



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

July 28, 2009

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

Canon National Bank  
Charter Number: 16392

816 Royal Gorge Blvd  
Canon City, CO 81215

Office of the Comptroller of the Currency

Denver Field Office  
1225 17<sup>th</sup> Street, Suite 450  
Denver, CO 80202

**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.**

**Summarize the major factors supporting the institution's rating.**

- The bank's loan-to-deposit ratio meets the standard for satisfactory performance. The bank's quarterly average loan-to-deposit ratio was 70 percent since the prior CRA examination in October 2003.
- A majority of the bank's loans, 92 percent by number and 98 percent by dollar volume, were originated to borrowers within the bank's designated assessment areas (AA).
- Borrower distribution to small businesses and to low-and-moderate income borrowers is reasonable.
- Geographic distribution in low- and moderate-income census tracts is adequate.
- The bank made seven qualified community development investments totaling \$6.8 million which helped provide affordable housing and affordable daycare for low- and moderate-income individuals in Fremont County. This also factored into the bank's rating.

**SCOPE OF EXAMINATION**

The evaluation period for this examination focused on commercial real estate loan originations from January 2004 through December 2008 and Home Mortgage Data from January 1, 2006 through December 31, 2008. Our loan sample was selected from the bank's primary lending products which are commercial real estate and residential real estate loans. We randomly selected a sample of 91 commercial real estate loans from the Assessment Areas (AA) along with reviewing HMDA reportable loans for the Pueblo and Colorado Springs MSA assessment areas, and Fremont County. Our conclusion was based primarily on the bank's commercial loans due to its high level of concentration in the loan portfolio.

Our review also included contacting a community representative in the Fremont County assessment area.

**DESCRIPTION OF INSTITUTION**

Canon National Bank (CNB) is a \$240 million institution located in Canon City, Fremont, Pueblo, Colorado City, and Colorado Springs, Colorado.

The bank operates nine full service facilities. Since the previous performance evaluation, the bank has opened two branches, one in Pueblo and one in Colorado Springs, Colorado. The main bank and one branch are located in Canon City, Colorado. Three branches each are located in Pueblo and two branches are in Colorado Springs, Colorado. One branch is located in each town of Florence and Colorado City, Colorado. The bank also operates deposit-taking ATMs at all bank locations.

Canon NB’s primary loan products by dollar volume are commercial loans, specifically commercial real estate (47.63%) and residential real estate (19.54%). Other loan products include construction and development (14.66%), commercial and industrial (9.82%), multifamily real estate (5.09%), and consumer loans (1.63%). Net loans represent 56 percent of the bank’s total assets.

<b>Loan Portfolio Composition as of March 31, 2009</b>		
<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Commercial Real Estate	64,998	47.63
Residential Real Estate	26,665	19.54
Construction & Development	20,006	14.66
Commercial & Industrial	13,401	9.82
Multifamily Real Estate	6,946	5.09
Consumer	2,224	1.63
Other	2,224	1.63
<b>TOTAL</b>	<b>136,464</b>	<b>100.00</b>

*Source June 30, 2009 Call Report.*

Canon NB received a “Satisfactory” rating at the last CRA examination dated October 14, 2003.

*Refer to the bank’s CRA Public File for more information.*

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

### **DESCRIPTION OF FREMONT COUNTY, PUEBLO MSA, AND COLORADO SPRINGS MSA**

Management has designated three assessment areas (AA). The AAs meet the requirements of the regulation and do not arbitrarily exclude low- or moderate-income geographies.

#### **Fremont County**

The first AA is Fremont County, Colorado. Fremont County contains 13 census tracts none of which are low- to moderate-income tracts. Ten tracts are designated as middle-income geographies, 1 tract is upper income, and 2 have no income designation. The Department of Housing and Urban Development (HUD) 2008 updated non-MSA median-family income for Fremont County is \$53,800. Based on 2000 US Census data there are 10,555 families residing within the AA of which 32 percent are deemed low- and moderate-income. Income designations are determined based on annual income as a percentage of the non-MSA median-family income.

#### **Pueblo County MSA**

The second AA is Pueblo County which represents the entire Pueblo Metropolitan Statistical Area (MSA). The Pueblo MSA is comprised of 51 census tracts with no low-income tracts, 19 (37%) moderate-income geographies, 19 (37%) middle income tracts, and 11 (22%) upper income tracts. Two (4%) census tracts do not have an income designation.

The HUD 2008 updated MSA median-family income for the Pueblo MSA is \$48,700. Based on

2000 US Census data there are 37,624 families residing within the Pueblo MSA, of which 38 percent are deemed low- and moderate-income.

**El Paso County MSA**

The third AA is El Paso County which represents the Colorado Springs MSA. The Colorado Springs MSA is comprised of 111 census tracts with one low-income tract, 32 (29%) are moderate-income geographies, 52 (47%) are middle income tracts, and 26 (23%) are upper income tracts. Two (4%) census tracts do not have an income designation.

The HUD 2008 updated MSA median-family income for the Colorado Springs MSA is \$68,000. Based on 2000 US Census data there are 135,068 families residing within the Colorado Springs MSA, of which 36 percent are deemed low- and moderate-income.

*Refer to the bank’s CRA Public File for more information.*

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

**Loan-to-Deposit (LTD) Ratio**

The loan-to-deposit ratio of CNB is reasonable given the bank’s size, financial condition, and assessment area credit needs. The bank’s quarterly average loan-to-deposit ratio was 70 percent since the prior CRA examination while the average loan-to-deposit ratio of similarly situated banks ranged between 47 and 87 percent. Similarly situated banks are those banks of comparable asset size operating in the same geographies.

The quarterly average loan-to-deposit ratio for each similarly situated bank in or contiguous to the assessment area is listed below. Please note that these banks are listed alphabetically by city and that no ranking is intended or implied.

<b>Loan-to-Deposit Ratios</b>		
<b>Institution</b>	<b>Total Assets \$ (000’s) (As of 12/31/08)</b>	<b>Average Loan-to-Deposit Ratio</b>
<b>Canon National Bank</b>	240,057	69.81%
Pikes Peak National Bank	88,256	57.25%
Rocky Mountain Bank & Trust	233,536	47.32%
Peoples National Bank	181,628	80.29%
Pueblo Bank and Trust Company, The	343,465	87.04%
Academy Bank, National Association	433,945	79.48%
Colorado National Bank	123,508	82.30%

*Source: Institution Reports of Condition from March 2004 to December 2008*

**Lending in Assessment Area**

A substantial majority of loans by number and dollar volume are originated within the bank’s combined assessment areas. Of loans originated from January 1, 2004 to December 31, 2008,

approximately 92 percent by number and 98 percent by dollar volume were made to borrowers within the bank’s AAs. The table below shows loans originated inside the AAs by number and dollar volume.

<b>Table 1 - Lending in Combined Assessment Areas</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	561	92%	46	8%	607	\$73,286	91%	\$6,999	9%	\$80,285
Home Improvement	27	90%	3	10%	30	\$1,181	95%	\$61	5%	\$1,242
Refinancing	269	92%	25	8%	294	\$40,403	90%	\$4,364	10%	\$44,767
Businesses	87	96%	4	4%	91	\$49,904,705	98%	\$952,845	2%	\$50,857,550
Totals	944	92%	78	8%	1,022	\$50,019,575	98%	\$964,269	2%	\$50,983,844

Source: 2006-2008 HMDA data

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

The bank’s pattern of lending to individuals of different income levels and businesses of different sizes in Colorado is satisfactory. In our analysis, we placed more weight on the bank’s origination of commercial real estate loans due to the bank’s small business lending focus.

**Pueblo County MSA**

An analysis of 182 residential loans originated in the Pueblo County MSA between 2006 and 2008 show 10 percent of home purchase loans, 6 percent of home refinance loans, and 20 percent of home improvement loans to low-income families. This compares favorably with area demographics which indicate that 20 percent of families are low-income.

HMDA data also show 11 percent of home purchase loans, 11 percent of home refinance loans, and 60 percent of home improvement loans to moderate-income families. This compares favorably with area demographics which indicate that 18 percent of families are moderate-income.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Pueblo County MSA</b>								
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
Home Purchase	20%	10%	18%	11%	22%	14%	40%	54%
Home Improvement	20%	20%	18%	60%	22%	0%	40%	0%
Refinancing	20%	6%	18%	11%	22%	15%	40%	56%

Source: 2006-2008 HMDA data

A substantial majority of business loans by number and dollar volume are originated to borrowers with less than \$1 million in annual revenue. We found that nearly 72 percent of loans and 99 percent in dollars in Pueblo County were made to businesses with annual revenues less than \$1 million. This compares very favorably with area demographics of approximately 64 percent for Pueblo County.

<b>Table 2A - Borrower Distribution of Loans to Businesses/Farms in Pueblo County</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	64%	4%	32%	100%
% of Bank Loans in AA by #	72%	10%	18%	100%
% of Bank Loans in AA by \$	99%	1%	0%	100%

Source: 2008 Detailed Census Tract Report

**El Paso County MSA**

An analysis of 36 residential loans originated in the El Paso County MSA between 2006 and 2008 show 6 percent of home purchase loans, zero percent of home refinance loans, and zero percent of home improvement loans to low-income families. This compares unfavorably with area demographics which indicate that 17 percent of families are low-income. A mitigating factor is the bank’s small amount of originated loans and the high level of competition in El Paso County

MSA data also show 19 percent of home purchase loans and 16 percent of home refinance loans to moderate-income families. These compare reasonably with area demographics which indicate that 19 percent of families are moderate-income.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in El Paso County 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	17%	6.25%	19%	19%	25%	13%	39%	50%
Home Improvement	17%	0%	19%	0%	25%	0%	39%	0%
Refinancing	17%	0%	19%	16%	25%	5%	39%	38%

Source: 2006-2008 HMDA data.

A substantial majority of business loans by number and dollar volume are originated to borrowers with less than \$1 million in annual revenue. We found that nearly 68 percent of loans and 88 percent in dollars in El Paso County were made to businesses with annual revenues less than \$1 million. This compares favorably with area demographics of approximately 65 percent for El Paso County.

<b>Table 2A – Borrower Distribution of Loans to Businesses/Farms in El Paso County</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	65%	4%	31%	100%
% of Bank Loans in AA by #	68%	7%	25%	100%
% of Bank Loans in AA by \$	88%	12%	0%	100%

Source: 2008 Detailed Census Tract Report

**Fremont County AA**

An analysis of 639 residential loans originated in Fremont County between 2006 and 2008 show 13 percent of home purchase loans, 19 percent of home improvement loans, and 11 percent of home refinance loans to low-income families. This compares reasonably with area demographics indicating that 21 percent of families are low-income.

Data also shows 23 percent of home purchase loans, 19 percent of home improvement loans, and 21 percent of home refinance loans to moderate-income families. This compares favorably with area demographics which indicate that 21 percent of families are moderate-income.

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
Home Purchase	21%	13%	21%	23%	25%	27%	33%	31%
Home Improvement	21%	19%	21%	19%	25%	24%	33%	24%
Refinancing	21%	11%	21%	21%	25%	20%	33%	38%

Source: 2006-2008 HMDA data.

A substantial majority of business loans by number and dollar volume are originated to borrowers with less than \$1 million in annual revenue. We found that nearly 71 percent of loans and 89 percent in dollars in Fremont County were made to businesses with annual revenues less than \$1 million. This compares very favorably with area demographics of approximately 64 percent for Fremont County.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	64%	3%	33%	100%
% of Bank Loans in AA by #	71%	11%	18%	100%
% of Bank Loans in AA by \$	89%	11%	0%	100%

Source: 2008 Detailed Census Tract Report

### **Geographic Distribution of Loans**

The bank’s pattern of lending to individuals and businesses in low-to-moderate geographic distributions in Colorado is adequate. In our analysis, we placed more weight on the bank’s origination of commercial real estate loans due to the bank’s small business lending focus.

### **Pueblo County MSA**

An analysis of the geographic distribution of residential real estate loans show 12 percent of home purchase loans and 12 percent of home refinance loans in moderate-income tracts. This compares unfavorably with area demographics indicating that 51 percent of homes are owner-occupied in the moderate income tracts. A mitigating factor is that the bank’s primary lending focus is commercial real estate. In addition, there is a high level of competition from local credit unions in the AA.

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	0%	0%	51%	12%	68%	39%	78%	50%
Home Improvement	0%	0%	51%	0%	68%	0%	78%	100%
Refinancing	0%	0%	51%	12%	68%	36%	78%	52%

Source: 2006-2008 HMDA data.

The distribution of business loans indicate that 23 percent are made to businesses in moderate-income tracts. This is somewhat weaker distribution compared to the demographics which indicates that 33 percent of businesses are in moderate-income tracts in Pueblo County. However, this is still adequate given that penetration represents almost 70% of the MSA demographics, and subject bank has a limited presence in the Pueblo market.

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
Businesses	0%	0%	33%	23%	37%	9%	30%	68%

Source: 2008 Detailed Census Tract Report

**El Paso County MSA**

An analysis of the geographic distribution of residential real estate loans indicate zero percent of home purchase, home improvement, and home refinance loans in the low-income tracts. This compares unfavorably with area demographics indicating that 19 percent of homes in the low-income tracts are owner-occupied. Data also indicates 31 percent of home purchase loans and 32 percent of home refinance loans in the moderate-income tracts. This also compares unfavorably with area demographics of 44 percent. A mitigating factor is the high level of competition and CNB’s small presence in El Paso County.

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	19%	0%	44%	31%	63%	56%	79%	13%
Home Improvement	19%	0%	44%	0%	63 %	100%	79%	0%
Refinancing	19%	0%	44%	32%	63%	47%	79%	21%

The distribution of business loans indicate that 11 percent of loans are made to businesses in low-income tracts and 24 percent are made in the moderate-income tracts. These compare favorably with area demographics of 5 percent for low-income tracts and 24 percent for moderate-income tracts.

Table 3A - Geographic Distribution of Loans to Businesses/Farms in Colorado Springs MSA								
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
Businesses	5%	11%	24%	24%	41%	45%	30%	21%

Source: 2008 Detailed Census Tract Report

**Fremont County AA**

We did not perform a geographic analysis for this AA as this area does not include low-and moderate- income census tracts.

**Community Contact**

Information obtained from a community development leader in Canon City, Colorado indicated the community’s primary credit need is small business loans. Our contact explained that 85 percent of businesses in Fremont County employ 10 people or less; thus the high need for small business loans. He indicated that financial institutions in the area are providing the necessary resources to fulfill community needs.

**Qualified Investments and CD Services (Optional)**

**Community Development Investments**

The bank has 7 investments with a total approximate value of \$6.78 million that meet the criteria for community development investments. Six investments totaling \$6.49 million provide affordable housing for low and moderate income individuals; and one investment totaling \$285,000 provides nonprofit daycare services in Florence, CO.

**Responses to Complaints**

Canon National Bank did not receive any CRA related complaints during the evaluation period.

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

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