

# **PUBLIC DISCLOSURE**

**September 29, 2008**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Community Bank of Nevada  
RSSD #2319676**

**400 South Fourth Street, Suite 100  
Las Vegas, Nevada 89101**

**Federal Reserve Bank of San Francisco  
101 Market Street  
San Francisco, California 94105**

*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.*

## TABLE OF CONTENTS

INSTITUTION RATING .....	1
<i>Institution's CRA Rating</i> .....	1
INSTITUTION.....	2
<i>Description of Institution</i> .....	2
<i>Description of Assessment Area</i> .....	3
<i>Scope of Examination</i> .....	9
CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS.....	11
<i>Lending Test</i> .....	11
LOAN-TO-DEPOSIT RATIO.....	11
LENDING IN ASSESSMENT AREA .....	11
LENDING DISTRIBUTION BY GEOGRAPHY .....	12
LENDING DISTRIBUTION BY BUSINESS REVENUE.....	12
RESPONSE TO COMPLAINTS.....	13
<i>Community Development Test</i> .....	13
<i>Fair Lending or Other Illegal Practices Review</i> .....	14
GLOSSARY OF TERMS.....	15

## INSTITUTION RATING

### ***Institution's CRA Rating***

Community Bank of Nevada is rated "SATISFACTORY"

*The following table shows the performance ratings for the lending and community development tests.*

PERFORMANCE LEVELS	PERFORMANCE TESTS	
	LENDING TEST	COMMUNITY DEVELOPMENT TEST
OUTSTANDING		
SATISFACTORY	<b>X</b>	<b>X</b>
NEEDS TO IMPROVE		
SUBSTANTIAL NONCOMPLIANCE		

The major factors supporting the institution's rating include:

- A majority of loans originated within the assessment area;
- A reasonable distribution of small business loans by revenue size, many of which were in smaller dollars amounts of \$100,000 or less;
- A reasonable geographic dispersion of small business loans, with no conspicuous gaps in lending patterns; and
- A reasonable level and impact of community development activities primarily supporting affordable housing and economic development in low- and moderate-income geographies.

## INSTITUTION

### ***Description of Institution***

Community Bank of Nevada (CBON), with total assets of \$1.6 billion as of December 31, 2007, is headquartered in Las Vegas, Nevada. The institution is a wholly-owned subsidiary of Community Bancorp, which also fully owns Community Bank of Arizona, headquartered in Phoenix, Arizona. CBON currently operates a network of 13 full service branches, of which 12 are in Clark County and one is in the city of Pahrump in adjacent Nye County. Clark and Nye Counties make up the Las Vegas-Paradise-Pahrump Combined Statistical Area (CSA), which is the bank's assessment area.

Since its previous CRA examination, CBON acquired and merged with Valley Bank, Las Vegas, Nevada, in October 2006. The merger resulted in five additional branches for CBON, including the branch in Pahrump. Subsequent to the merger, CBON closed two branches in February and April 2007 and opened a new branch in June 2007 to arrive at the current total of 13 branches. The bank operated two loan production offices during the review period: one in Phoenix, Arizona and the other in San Diego, California, which ceased operations in April 2008 and December 2007, respectively.

CBON's primary business strategy is to serve the needs of small- and medium-sized businesses by building long-term full-service banking relationships. As such, the bank focuses on commercial real estate, construction, and land acquisition and development loans. Other commercial loan products include SBA loans and commercial loans and lines of credit. Although consumer lending activity is very limited and primarily offered as an accommodation to existing commercial clients, CBON does offer and has extended a small number of home equity lines of credit, home mortgages, and credit cards. The composition of the loan portfolio, as disclosed in its December 31, 2007, Consolidated Reports of Condition and Income, is shown in the table below and highlights the focus on commercial real estate lending.

EXHIBIT 1		
LOAN TYPE	DOLLAR AMOUNT (*000s)	PERCENT OF VALUE
Commercial/Industrial & Non-Farm Non-Residential Real Estate	\$556,132	41.40%
Construction & Land Development	\$744,523	55.4%
Secured by 1-4 Family Residential Real Estate	\$25,105	1.9%
Farmland	\$11,767	0.9%
Consumer Loans & Credit Cards	\$2,981	0.2%
Leases	\$1,895	0.1%
All Other	\$538	0.1%
<b>Total (Gross)</b>	<b>\$1,342,941</b>	<b>100.0%</b>

During this review period, CBON faced no legal or financial impediments to prevent it from helping to meet the credit needs of its assessment area consistent with its business strategy, size, financial capacity, and local economic conditions. The prior CRA examination, conducted as of July 24, 2006, resulted in a satisfactory rating.

## ***Description of Assessment Area***

The bank's assessment area changed since the previous examination and now consists of Clark County, also known as the Las Vegas-Paradise MSA, and Nye County, a micropolitan area. As noted above, these two counties make-up the Las Vegas-Paradise-Pahrump CSA. At the previous examination, the bank's assessment area consisted of only Clark County.

CBON has a relatively small presence within the market as deposits are concentrated in two large national banks that hold 85 percent of the total deposits. As of June 30, 2007, the bank's 13 offices held approximately \$1.1 billion in deposits, representing less than one percent of deposit market share and ranking the bank 8<sup>th</sup> out of 47 Federal Deposit Insurance Corporation (FDIC) insured institutions.<sup>1</sup> There were 47 FDIC-insured depository institutions operating 393 offices in Clark County and 4 offices in Nye County. In terms of commercial lenders, 146 CRA aggregate lenders reported over 100 thousand small business loans in the area during 2007.<sup>2</sup> Primary competitors in the market are large multi-national and regional banks and thrifts. These institutions also compete with CBON for lending and deposit products as well as community development loans and investments.

Clark County is located in the southern portion of Nevada. With a population close to 2 million, Clark County contains 70 percent of the state's population and is the nation's 15<sup>th</sup> largest county. The city of Las Vegas, with a population of 603,093, is the most populous city in Clark County and home to the Las Vegas strip, renowned for its gaming, restaurant, entertainment and hospitality industries.<sup>3</sup> Other cities in the county include: Boulder City (population 16, 206), Henderson (population 265,790), Mesquite (population 19,194), and North Las Vegas (population 215,026).<sup>4</sup>

Nye County, located in the south-central portion of Nevada, just north of Clark County and east of Death Valley National Park, is the largest county in Nevada. Although the county is one of the largest in the nation in terms of land area, 98 percent of the land is owned by the U.S. Government and is unavailable for private or county use. The Nevada Test Site, which at

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<sup>1</sup> References to FDIC insured institutions and deposit market shares for the area were obtained from the Federal Deposit Insurance Corporation, Summary of Deposits, June 30, 2007 (accessed September 10, 2008); available from <http://www4.fdic.gov/sod>.

<sup>2</sup> Based upon the number of large institutions reporting CRA data within the bank's assessment area.

<sup>3</sup> Clark County Department of Comprehensive Planning, Clark County Nevada 2007 Population Estimates (accessed September 10, 2008); available from <http://www.accessclarkcounty.com>.

<sup>4</sup> Clark County Department of Comprehensive Planning, Clark County Nevada 2007 Population Estimates (accessed September 10, 2008); available from <http://www.accessclarkcounty.com>.

approximately 1,375 square miles is the largest restricted access area in the United States, is located here. In addition, thousands of acres of land have been withdrawn from the public domain for use as a protected wildlife range and for a military gunnery range, creating an unpopulated land area comprising some 5,470 square miles.<sup>5</sup> Of Nye County's estimated population of 46,308, 82 percent is situated in the unincorporated city of Pahrump, where CBON's branch is also located. Other unincorporated cities in the area include Amargosa, Beatty, Gabbs, Manhattan, Round Mountain, and Tonopah, which is the county seat.<sup>6</sup>

Exhibit 2 on the following page highlights demographic information from the 2000 U.S. Census and 2008 Dun & Bradstreet business data that was used to help develop the performance context for the assessment area.

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<sup>5</sup> U.S. Department of Energy (accessed September 12, 1008); available from <http://www.nv.doe.gov/nts/default.htm>.

<sup>6</sup> Nevada Small Business Development Center (accessed September 12, 2008); available from <http://www.nsbdc.org>.

EXHIBIT 2								
ASSESSMENT AREA DEMOGRAPHICS								
LAS VEGAS-PARADISE-PAHRUMP								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	6	1.7	3,941	1.1	1,129	28.6	66,199	18.8
Moderate-income	81	22.8	87,409	24.9	14,408	16.5	66,198	18.8
Middle-income	154	43.4	152,794	43.5	9,167	6.0	82,531	23.5
Upper-income	109	30.7	107,336	30.5	2,845	2.7	136,552	38.9
Tract not reported	5	1.4	0	0.0	0	0.0	0	0.0
Total AA	355	100.0	351,480	100.0	27,549	7.8	351,480	100.0
Income Categories	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	10,600	841	0.3	7.9	8,361	78.9	1,398	13.2
Moderate-income	162,590	52,641	16.8	32.4	93,316	57.4	16,633	10.2
Middle-income	246,441	142,261	45.5	57.7	84,108	34.1	20,072	8.1
Upper-income	155,759	117,261	37.5	75.3	26,753	17.2	11,745	7.5
Tract not reported	343	0	0.0	0.0	20	5.8	323	94.2
Total AA	575,733	313,004	100.0	54.4	212,558	36.9	50,171	8.7
Income Categories	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Low-income	1,780	3.2	1,555	3.2	184	3.6	41	2.9
Moderate-income	12,214	21.9	10,613	21.6	1,227	23.7	374	26.2
Middle-income	21,400	38.4	18,924	38.5	1,944	37.6	532	37.3
Upper-income	20,050	36.0	17,822	36.3	1,773	34.3	455	31.9
Tract not reported	312	0.6	243	0.5	43	0.8	26	1.8
Total AA	55,756	100.0	49,157	100.0	5,171	100.0	1,428	100.0
<b>Percentage of Total Businesses:</b>			<b>88.2</b>		<b>9.3</b>		<b>2.6</b>	
Median Family Income 2000			\$48,420	2007 Median Housing Value Clark County <sup>7</sup> Nye County <sup>8</sup>				\$259,363 \$216,409
2007 HUD Adjusted Median Family Income Clark County Nye County			\$60,100 \$58,400	2007 Unemployment Rate Clark County Nye County				4.8% 6.9%

<sup>7</sup> Center for Business and Economic Research at the University of Nevada, Las Vegas, Southern Nevada's Economy, *Current Clark County Economic Data* (accessed November 24, 2008); available at <http://cber.unlv.edu/snecon.html>.

<sup>8</sup> EDIS, Commerce Economic Development, Nye County (NV), (accessed September 16, 2008); available from <https://edis.commerce.state.nc.us/docs/countyProfile/NV/32023.pdf>

At the beginning of 2006, Nevada was the fastest growing state in the nation for the 19<sup>th</sup> consecutive year.<sup>9</sup> With more than 70 percent of the state's population, Clark County is a primary driver of that rating. Though there is also significant migration outflow, inflow is greater, resulting in net migration into the area.<sup>10</sup> As a result, with more than 5,000 people moving to the area each month, Las Vegas was one of the fastest growing metropolitan areas in the country<sup>11</sup> and the population of the county grew by just over four percent in both 2006 and 2007.<sup>12</sup> Population growth into the area was due primarily to in-migration from two groups, young adults coming to work in the expanding service sector and retirees.<sup>13</sup>

The service sector is a primary driver of the Clark County economy. Four of the top ten employers were the service sectors of accommodation, food service, retail, and gaming.<sup>14</sup> Combined, these sectors employed approximately 38 percent of the county's workforce.<sup>15</sup> Further evidence of the strength of the service sector is the economic impact of tourism. Hotels and casinos are not only major employers,<sup>16</sup> they contribute significant revenue to the local economy. The area receives about 39.2 million tourists annually, resulting in an economic impact in 2006 of \$39.4 billion, which included approximately \$10.6 billion spent on gaming.<sup>17</sup> Las Vegas currently has 14 of the 15 largest hotels in the country.<sup>18</sup> Six of these were either opened or under construction during the review period, while many others were undergoing significant expansion or renovation.<sup>19</sup> The strength and expansion of the tourism industry, along with population growth and corresponding increased housing demand, resulted in a strong construction trade. In 2006, 12 percent of the county's workforce was employed in this industry.<sup>20</sup>

<sup>9</sup> U.S. Census Bureau, press release dated December 22, 2005 (accessed November 26, 2008); available at <http://www.census.gov/Press-Release/www/releases/>.

<sup>10</sup> Moody's Economy.com *Précis Metro*, Las Vegas Metro Area, August 2008.

<sup>11</sup> Clark County Official Website, About Clark County (accessed October 26, 2008); available at <http://www.accessclarkcounty.com>.

<sup>12</sup> Center for Business and Economic Research at the University of Nevada, Las Vegas, Southern Nevada's Economy, *Current and Historical Clark County Population Data* (accessed November 25, 2008); available at <http://cber.unlv.edu/snecon.html>.

<sup>13</sup> HUD User Policy Development and Research Information Service, "Analysis of the Las Vegas, Nevada Housing Market as of January 1, 2006," p. 3 (accessed November 25, 2008); available at <http://www.huduser.org/publications/pdrpubli.html>.

<sup>14</sup> U.S. Census Bureau Longitudinal Employer-Household Dynamics, Data Tools, *Industry Focus* (accessed November 24, 2008); available at <http://lehd.did.census.gov/led/datatools/datatools.html>.

<sup>15</sup> U.S. Census Bureau American Factfinder, Data Sets, *2007 American Community Survey 1-Year Estimates* (accessed November 26, 2008); available at [http://www.factfinder.census.gov/home/saff/main.html?\\_lang=en](http://www.factfinder.census.gov/home/saff/main.html?_lang=en).

<sup>16</sup> Moody's Economy.com *Précis Metro*, Las Vegas Metro Area, August 2008.

<sup>17</sup> About Clark County; <http://www.accessclarkcounty.com>

<sup>18</sup> Clark County, Nevada (accessed September 10, 2008); available from <http://www.accessclarkcounty.com>.

<sup>19</sup> Only Vegas website, Features, History 2005 to Present, available at [www.visitlasvegas.com](http://www.visitlasvegas.com) (accessed November 26, 2008).

<sup>20</sup> U.S. Census Bureau American Factfinder, Data Sets, *2006 American Community Survey* (accessed November 26, 2008); available at [http://www.factfinder.census.gov/home/saff/main.html?\\_lang=en](http://www.factfinder.census.gov/home/saff/main.html?_lang=en).



The economy began to show signs of a slowdown in 2006, but remained positive overall. Unemployment increased slightly, to 4.2 percent,<sup>21</sup> but employment in most industries remained positive. Employment in construction, for example increased by 8.6 percent over the previous year. Results in the service sector were varied, with retail and food service showing increases of 3.3 and 5.8 percent, respectively.<sup>22</sup> In accommodation and gaming, meanwhile, the closure of several large hotels and casinos was offset by opening of two others. Nevertheless, there were fewer available hotel rooms in 2006 and overall employment in these sectors showed a nominal decline of 0.4 percent.<sup>23</sup>

By 2007, the U.S. economy had begun to slow significantly, mostly due to a real estate slump and related financial problems.<sup>24</sup> This slowdown was also evident in the Las Vegas economy. Food service and retail sectors continued to show modest increases in employment and hotels and gaming moved into positive territory, but only just, with a 0.7 percent increase over the previous year.<sup>25</sup> Tourism was relatively flat, with less than 1 percent increase in visitors to the area, and a decrease in convention attendance of 1.6 percent.<sup>26</sup> During the same period, gaming revenue increased only a modest 2 percent, compared to a 10 percent increase the previous year.<sup>27</sup> Meanwhile, through 2007, the commercial real estate market showed signs of strain, with increasing vacancy rates in apartment, office, retail, and warehouse sectors and continued deterioration expected through 2008.<sup>28</sup>

The most significant evidence of the downturn was seen in the construction industry. The softening of the housing market, evidenced by foreclosure rates that were approximately 700 percent higher than the previous year,<sup>29</sup> resulted in a loss of almost 8,000 jobs or five percent of the workforce in the construction industry.<sup>30</sup> Other industries that shed jobs in Clark County in 2007 included the financial sector and professional and business services.<sup>31</sup> As a result of overall job contraction, the unemployment rate increased again in 2007,<sup>32</sup> rising to 5.6 percent in Clark County.<sup>33</sup>

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<sup>21</sup> Nevada Department of Employment Training and Rehabilitation, Reports and Publications, "Nevada Economy in Brief, December 2006" (accessed November 25, 2008); available at <http://www.nevadaworkforce.com/>.

<sup>22</sup> Ibid.

<sup>23</sup> Ibid.

<sup>24</sup> Leonhardt, David. (April 26, 2008). Times Topics, "United States Economy," *The New York Times*, (accessed November 28, 2008), available at [www.nytimes.com](http://www.nytimes.com).

<sup>25</sup> Nevada Department of Employment Training and Rehabilitation, Reports and Publications, "Nevada Economy in Brief, December 2007" (accessed November 25, 2008); available at <http://www.nevadaworkforce.com/>.

<sup>26</sup> Las Vegas Convention and Visitors Authority, For Press and Research, Statistics and Facts, "Year-end Summary for 2007" (accessed November 25, 2008); available at [www.lvcva.com](http://www.lvcva.com).

<sup>27</sup> Las Vegas Convention and Visitors Authority, For Press and Research, Statistics and Facts, "Year-end Summary for 2006" (accessed November 25, 2008); available at [www.lvcva.com](http://www.lvcva.com).

<sup>28</sup> Federal Reserve Bank of Atlanta "Commercial Real Estate Market Spotlight" for Las Vegas, NV as of 2008Q1.

<sup>29</sup> Illia, Tony. (October 12, 2007), "Office Vacancies Rise Amid Housing Market Downturn." *Las Vegas Business Press* (accessed November 26, 2008); available at [www.lvbusinesspress.com](http://www.lvbusinesspress.com).

<sup>30</sup> "Nevada Economy in Brief, December 2007," available at <http://www.nevadaworkforce.com>.

<sup>31</sup> Ibid.

<sup>32</sup> Moody's Economy.com *Précis Metro*, Nevada, April 2008.

<sup>33</sup> "Nevada Economy in Brief, December 2007," available at <http://www.nevadaworkforce.com>.

The downturn also impacted housing affordability. While population increases played a role, speculation was also a significant contributing factor to drastic increases in home prices in Clark County since 2000. By 2006, almost half of the home sales in the Las Vegas area were to people who intended to resell quickly for a profit.<sup>34</sup> Median sale prices of both new and existing homes in Clark County doubled from 2000 to 2005<sup>35</sup> and, as displayed in exhibit 2 above, by 2007 the median home value in the county was approximately \$259,000. The soaring home values contributed to affordability challenges for many sectors of the population. In 2007, an average worker in the hospitality and construction industries could afford homes priced at \$90,618 or \$176,699, respectively.<sup>36</sup> Similarly, the median earning family in Clark County could only afford a mortgage of \$235,011.<sup>37</sup> This figure either put the average priced home just out of reach or required a significant down payment, which may have presented additional barriers for working families.

The downturn experienced in real estate markets nationwide was felt particularly keenly in Las Vegas. Many speculators abandoned the market, forfeiting deposits on unfinished properties or allowing purchased properties to be repossessed.<sup>38</sup> By the end of 2007, existing home sales were one-third of peak levels. Builders adjusted as the market worsened and home permits fell by more than 80 percent from levels of two years earlier.<sup>39</sup> The sharp falloff in new home supplies not only contributed to the rising unemployment rate, but also resulted in a decline in median house value of approximately 15 percent. However, this was insufficient to restore affordability for many prospective homebuyers.

In Nye County, the presence of the Nevada Test Site results in the U.S. government, along with private corporations that contract with the government to manage Test Site operations, being predominant employers in the area. The county is also a major employer.<sup>40</sup> Other major industries in the county include mining, hospitality, and construction.<sup>41</sup> Though its population is only a fraction of that of Clark County, Nye County has not been immune to the effects of the downturn. Data indicates that government employment declined slightly during the review period.<sup>42</sup> In addition, budget cuts led contractors to lay off staff at the Nevada Test Site in late

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<sup>34</sup> Howley, Kathleen M. (September 29, 2007). "Las Vegas Housing Boom Going Bust," *The Seattle Times* (accessed November 28, 2008), available at [seattletimes.nwsources.com/html/home/index.html](http://seattletimes.nwsources.com/html/home/index.html).

<sup>35</sup> "Analysis of the Las Vegas, Nevada Housing Market as of January 1, 2006," p. 7; available at <http://www.huduser.org/publications/pdrpubli.html>.

<sup>36</sup> Wargo, Brian. (July 22, 2008). "Housing Affordability Seen as a Long-term Problem," *Las Vegas Sun*, (accessed November 28, 2008); available at [www.lasvegassun.com](http://www.lasvegassun.com).

<sup>37</sup> Assumes a 30-year fixed rate mortgage at 6.0 percent interest and a maximum mortgage payment of 28 percent. Federal Home Loan Mortgage Corporation guidance advises borrowers that a 28 percent payment is generally considered a lending standard. See "How Much Can You Afford to Spend on a Home?" (accessed November 28, 2008); available at [www.freddiemac.com](http://www.freddiemac.com).

<sup>38</sup> "Las Vegas House 'Flipping Boom' Goes Bust," (April 27, 2007). MSNBC.com (accessed November 28, 2008); available at [www.msnbc.com](http://www.msnbc.com).

<sup>39</sup> Moody's Economy.com Précis Metro, Las Vegas Metro Area, April 2008.

<sup>40</sup> NV Energy, Your Business, Economic Development, Nye Business Overview (accessed November 28, 2008); available at [www.nvenergy.com](http://www.nvenergy.com).

<sup>41</sup> Ibid.

<sup>42</sup> Ibid.

2007.<sup>43</sup> Construction employment also decreased, as did employment in lesser industries like manufacturing, trade, transportation, and utilities.<sup>44</sup> As a result, unemployment had risen to 8.0 percent in Nye County by the end of 2007.<sup>45</sup> While economic factors presented challenges in Nye County, the median earning family was able to afford a mortgage of \$228,474, making the median priced home relatively affordable.<sup>46</sup>

Credit and community development needs vary within the assessment area. Discussions with several community contacts engaged in small business development in the area indicated that tightening lending standards resulting from the economic downturn have resulted in a critical need for start-up and on-going working capital loans for small businesses. With regard to consumers, contacts indicate that affordability challenges in Clark County, as well as an increase in apartment to condominium conversions, leads to a need for the development of affordable rental housing. Finally, several contacts also noted that the drastic increase in foreclosures in the area results in a need for foreclosure prevention loan assistance and counseling.

## ***Scope of Examination***

The CRA examination was conducted using the Intermediate Small Institution Examination Procedures. Performance for intermediate small banks is evaluated under two tests that consider the bank's lending and community development activities.

The lending test evaluation was based on loans originated between January 1, 2006, and December 31, 2007. Given the bank's commercial lending focus, the lending test assessment was based on small business lending. The bank made no small farm loans and home purchase, home refinance, and home-improvement loans were not reviewed because of their insufficient numbers. A total of 790 small business loans were used in the evaluation of *Lending in the Assessment Area* while a sample of 92 loans was used in the evaluation of *Lending Distribution by Geography* and *Lending Distribution by Business Revenue*.

The lending test portion of the evaluation was based on the following performance criteria:

- Loan volume compared to deposits (Loan-to-Deposit Ratio);
- Lending inside versus outside the assessment area (Lending in Assessment Area);
- Dispersion of lending throughout the assessment area (Lending Distribution by Geography); and
- Lending to businesses of different revenue sizes (Lending Distribution by Business Revenue).

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<sup>43</sup> Rogers, Keith and Steve Tetreault. (September 11, 2007). "Budget Reductions: Workers Facing Layoffs at Test Site." *Las Vegas Review Journal* (accessed November 28, 2008); available at [www.lvrj.com](http://www.lvrj.com).

<sup>44</sup> NV Energy, available at [www.nvenergy.com](http://www.nvenergy.com).

<sup>45</sup> "Nevada Economy in Brief, December 2007," available at <http://www.nevadaworkforce.com>.

<sup>46</sup> Assumes a 30-year fixed rate mortgage at 6.0 interest and a 28 percent monthly payment.

Responsiveness to consumer complaints was not evaluated because the bank did not receive any CRA-related complaints during the review period.

The community development test included an evaluation of the bank's level of community development activities in relation to local needs and opportunities as well as the bank's capacity to participate in such activities. The evaluation was based on qualified community development loans, investments and services provided by the bank. The review period for the community development test is the same as the lending test with the exception of investments. Qualified community development investments were evaluated between January 1, 2006, and July 31, 2008.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

### ***Lending Test***

Overall performance under the lending test is satisfactory. The loan-to-deposit ratio and level of lending within the assessment area indicate that the bank is effectively engaging in lending activities within its defined markets. The overall geographic and borrower distributions of small business loans are both reasonable.

#### **LOAN-TO-DEPOSIT RATIO**

The loan-to-deposit ratio is reasonable, given the institution's size, financial condition, and assessment area credit needs. The bank's eight-quarter average loan-to-deposit ratio, at 106.6 percent as of June 30, 2008, is higher than the state average and national peer loan-to-deposit ratios of 96.3 and 92.8 percent, respectively.

#### **LENDING IN ASSESSMENT AREA**

A substantial majority of the bank's loans were originated inside its assessment area. As shown in the table below, the bank extended approximately 90 percent of all small business loans, including number and dollar volume, within the assessment area.

<b>EXHIBIT 3</b>								
<b>LENDING INSIDE AND OUTSIDE THE ASSESSMENT AREA</b>								
<b>JANUARY 1, 2006 THROUGH DECEMBER 31, 2007</b>								
<b>LOAN TYPE</b>	<b>Inside</b>				<b>Outside</b>			
	<b>#</b>	<b>%</b>	<b>\$ (‘000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$ (‘000s)</b>	<b>%</b>
HMDA Home Purchase	2	100.0	438	100.0	0	0	0	0
HMDA Refinance	1	100.0	3,500	100.0	0	0	0	0
HMDA Home Improvement	1	100.0	10	100.0	0	0	0	0
Total HMDA-Related	4	100.0	3,948	100.0	0	0	0	0
Small Business	790	90.3	158,268	87.6	85	9.7	22,265	12.1
Total Business-Related	790	90.3	158,268	87.6	85	9.7	22,265	12.1
<b>TOTAL LOANS</b>	<b>794</b>	<b>90.3</b>	<b>162,216</b>	<b>87.9</b>	<b>85</b>	<b>9.7</b>	<b>22,265</b>	<b>12.1</b>

## LENDING DISTRIBUTION BY GEOGRAPHY

The distribution of small business loans reflects a reasonable penetration among geographies of different income levels. Lending in low-income census tracts exceeded both the performance of aggregate lenders and the concentration of businesses in those tracts. This is likely attributable to the location of the bank's headquarters in a low-income census tract in downtown Las Vegas. All the low-income tracts in the bank's assessment area are either clustered around the headquarters location or are close by. In addition, a review of competing institutions with branches in the bank's assessment area shows relatively few located in these tracts.

With regard to moderate-income tracts, CBON's performance is in line with that of aggregate lenders but was less than the business concentration in those tracts. Nevertheless, this performance is considered reasonable given several factors. First, a number of these tracts, particularly those in North Las Vegas, are not only distant from the bank's branches, but also contain significant geographic barriers, such as parks and the Nellis Air Force Base. Nevertheless, the bank did manage to penetrate the area to some extent. A cluster of loans was noted in the district between Interstate Highway 15 and Las Vegas Boulevard, which is an area that has been targeted by the city for business expansion.

With regard to moderate tracts showing no loan activity, Dun & Bradstreet data for these areas shows that the concentration of businesses was, in general, lower than in other moderate-income tracts. Further, the number of loans originated by aggregate lenders in these tracts was often comparable to, and in some cases, in excess of the number of business entities, suggesting possible saturation and limited loan demand. The second, and likely most significant factor impacting penetration in these tracts is the fact that the majority of the remaining moderate-income tracts within the bank's assessment area have a significant branch presence by other lenders, increasing the competition for business. The overall lower level of penetration in moderate-income tracts by aggregate lenders is likely a reflection of this intense competition.

EXHIBIT 4			
Census Tract Category	Bank Lending	Business Concentration	Aggregate Lending
Low-Income	4.4%	3.2%	1.6%
Moderate-Income	13.0%	22.0%	12.9%
Middle-Income	39.1%	38.6%	37.9%
Upper-Income	43.5%	36.2%	47.6%

## LENDING DISTRIBUTION BY BUSINESS REVENUE

The distribution of small business loans reflects reasonable penetration among businesses of different sizes. The bank extended 46.7 percent of small business loans to businesses with gross annual revenues of \$1 million or less. While 88.2 percent of all small businesses within the assessment area have gross annual revenues of less than \$1 million, the bank's performance is reasonable when compared to aggregate market, which extended 44.5 percent of all loans to businesses of this revenue size. In addition, a good portion of loans were extended in amounts of \$100,000 or less, thereby addressing the need for smaller dollar loans articulated by community contacts.

## RESPONSE TO COMPLAINTS

There were no complaints related to CRA during the review period. Consequently, the bank's performance in responding to complaints was not considered in evaluating its overall CRA performance.

## ***Community Development Test***

CBON's performance under the community development test demonstrates adequate responsiveness to the community development needs of its assessment area through the provision of community development loans, investments, and services. Activities were targeted to the provision of services, such as financial literacy training and health care, to low- and moderate-income individuals and to a lesser extent, to revitalization of low- and moderate-income areas and job creation. While community development activities were limited in Nye County, due to the bank's remote location and limited presence in this area there was no materially adverse impact on the overall community development rating.

The bank's retail branch locations, each of which has bilingual staff to assist Spanish-speaking customers, provide a good distribution of branches throughout the assessment area and are reasonably accessible to low- and moderate-income areas. Through this branch network and through work with a variety of non-profit organizations CBON provided 1,329 hours of community development services throughout its assessment area. Some of the more notable services include:

- Senior management provided approximately 125 service hours for a banker's collaborative targeted to addressing the needs of low- and moderate-income individuals. CBON participates in all three of the collaborative initiatives and the CRA Officer serves as the vice-chair of the Neighborhood Revitalization Initiative. The initiatives include:
  - (1) *Individual Development Account Initiative* designed to promote asset development and growth among low- and moderate-income families.
  - (2) *Non-Profit Capacity Building Initiative* designed to provide tools and training to help build more efficient, responsive and sustainable nonprofit organizations so that they can better assist with the needs of low- and moderate-income families.
  - (3) *Neighborhood Revitalization Initiative* designed to promote economic advancement and sustainability through involvement in neighborhood revitalization for the benefit of low- and moderate-income individuals.
- Bank personnel provided approximately 124 hours of services as instructors for a financial literacy program at a local school that serves low- and moderate-income students. The financial literacy program provides students with the challenge of operating a bank in a competitive environment that simulates the real banking world.

- Bank management provided approximately 62 hours of technical assistance as a member of the loan review committee to an affordable housing and homeownership non-profit organization.

The bank extended nine community development loans totaling \$10.1 million during the review period. Originated loans served a variety of purposes, including job creation and the revitalization of low- and moderate-income geographies. Loans also supported organizations and programs with a primary purpose of providing services, such as foreclosure prevention, financial literacy, affordable mortgages, and health care to low- and moderate income individuals

Current period community development investments included three securities totaling \$3.4 million that were backed by 18 mortgages to low- and moderate-income borrowers in the assessment area. In addition, the bank made approximately \$153 thousand in community development donations that benefited organizations providing services such as job training, financial literacy and homeownership counseling for low- and moderate-income individuals, and technical assistance to small businesses.

Finally, approximately \$1.9 million in prior-period investments remain on the bank's books that helped to provide small business loans and affordable housing in low- and moderate-income census tracts and to low- or moderate-income families. These investments included municipal bonds that supported the construction of affordable rental housing projects and mortgage-backed securities that consisted of loans financing affordable housing for low- or moderate-income families in Clark County. Prior period investments also included a \$494,000 SBA-securitized loan pool that consisted of ten loans extended to small businesses in low- and moderate-income census tracts.

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

The fair lending review performed concurrently with this examination did not evidence any discriminatory lending practices. However, a substantive violation the Real Estate Settlement Procedures Act (RESPA) was noted during this CRA evaluation. The violation was limited in nature, and as such, the practice did not adversely impact the bank's ability to lend in its local community or the terms of those loans that it did extend. Additionally, appropriate action has been taken to ensure that the violation does not recur. As such, the bank's overall performance rating was not lowered.



## GLOSSARY OF TERMS

**Aggregate lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Census tract:** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community development:** All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize:

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on:
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

**Consumer loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into ‘male householder’ (a family with a male householder and no wife present) or ‘female householder’ (a family with a female householder and no husband present).

**Full-scope review:** Performance under the lending and community development tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited-scope review:** Performance under the lending and community development tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Metropolitan area (MA):** A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities

having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

**Middle-income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

**Moderate-income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

**Small loan(s) to business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

**Small loan(s) to farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Upper-income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.