



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**October 10, 2006**

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

**The City National Bank of Sulphur Springs  
Charter Number 3989**

**201 Connally Street  
Sulphur Springs, TX 75482**

**Comptroller of the Currency  
Longview Field Office  
1800 West Loop 281, Suite 306  
Longview, TX 75604**

**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 City National Bank of Sulphur Springs has a satisfactory record of meeting community credit needs. This rating is based on the following:

- The bank's loan-to-deposit ratio is good based on its size and complexity.
- A substantial majority of the bank's loans are extended within its assessment area.
- Credit activity is reasonably distributed to borrowers of different income levels and businesses of different sizes.

## **DESCRIPTION OF INSTITUTION**

The City National Bank of Sulphur Springs (CNB) is a \$298 million bank which is wholly owned by Sulphur Springs Bancshares. The bank has eight full service branches and nine automatic teller machines located in the communities of Sulphur Springs, Winnsboro, Hawkins, Quitman and Yantis. The bank also operates a mortgage office in Sulphur Springs. CNB is the second largest depositor in the assessment area with 25% of the area deposits. As of June 30, 2006, loans totaled \$206 million and represented 69% of the bank's total assets. The following chart reflects the distribution of the bank's loan portfolio.

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Commercial Real Estate Loans	49,339	23.96
Commercial Loans	24,690	11.98
Residential Real Estate Loans	64,831	31.48
Consumer Loans	22,498	10.92
Agriculture Real Estate	21,782	10.58
Agriculture	22,821	11.08
<b>Total</b>	<b>205,961</b>	<b>100.00%</b>

There are no legal impediments or other factors which inhibit the bank's ability to meet the credit needs of the community. The bank was rated Satisfactory during the prior CRA Examination dated July 30, 2001.

## DESCRIPTION OF ASSESSMENT AREA

The Board has designated Hopkins, Wood, Franklin and Rains counties as its assessment area. These counties make up a contiguous assessment area and include the communities of Sulphur Springs, Quitman, Winnsboro, Mineola, Hawkins and other small rural communities. Each of the census tracts in this area have been designated as middle income areas. The assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude low and moderate-income geographies.

The following table provides a description of the bank's assessment area based on census data and 2000 Department of Housing and Urban Development (HUD) information.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
Population	
Number of Families	25,059
Number of Households	34,257
Geographies	
Number of Census Tracts/BNA	21
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	0.00%
% Middle-Income Census Tracts/BNA	100.00%
% Upper-Income Census Tracts/BNA	0.00%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	36,380
2005 HUD-Adjusted MFI	42,000
Economic Indicators	
Unemployment Rate	2.84%
2000 Median Housing Value	54,873
% of Households Below Poverty Level	18.17%

The bank's designated assessment area has a total population of 87,309. The distribution of families by income level, regardless of census tract location, consists of the following: 16.96% are low income, 17.28% are moderate income, 23.35% are middle income, and 42.41% are upper income. Major employers include Grocery Supply, Flowserve, Ocean Spray Cranberries and Morningstar Foods. The major industry in the assessment area is dairy farm operations and supporting businesses. Competition within the assessment area is strong with several banks and financial institutions located throughout the assessment area. The local economy is considered stable with an unemployment rate of 2.84%.

Contacts with a local business organization revealed the primary community credit needs for the assessment area are small agriculture loans. This contact also stated the local financial institutions offer products that help meet all the credit needs of the communities.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit 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 71.93% since the prior CRA examination in July 2001. The average loan-to-deposit ratio of banks within the assessment area for the same time period was 66.10%.

Institution	Assets (000s) (as of 6/30/06)	Average LTD Ratio
City National Bank, Sulphur Springs	298,000	71.93%
Alliance Bank, Sulphur Springs	457,000	71.36%
Bank Texas, Quitman	145,000	72.72%
First National Bank, Winnsboro	124,000	83.20%
Wood County National Bank, Quitman	59,000	54.74%
Equity Bank SSB, Mt. Vernon	129,000	67.06%
First National Bank, Emory	81,000	60.21%
First National Bank, Mt. Vernon	124,000	47.56%

### Lending in Assessment Area

A substantial majority of the bank's lending activity is located within its assessment area. We reviewed a sample of 36 residential mortgages, 26 consumer, 24 commercial loans and 27 agriculture loans which originated since July 2001. This sample reflected that approximately 87% of the number of loans and 80% of the dollar amount of loans in our sample were extended within the bank's assessment area. The breakdown by loan category is illustrated in the following table.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential	31	86.11	2,510	80.81	5	13.89	596	19.19
Consumer	22	84.62	255	79.06	4	15.38	68	20.94
Commercial	22	91.67	2,243	73.53	2	8.33	807	26.47
Agriculture	23	85.19	2,399	86.54	4	14.81	373	13.46
Total Reviewed	98	86.73	7,407	80.07	15	13.27	1,844	19.93

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

The distribution of loans within the assessment area reflects a reasonable penetration among borrowers of different income levels and businesses and farms of different sizes. City National Bank's primary product lines are residential and commercial with an additional high percentage of agriculture and consumer loans; therefore, each of these loan types was included in this review.

The distribution of residential purchase loans reflects an adequate distribution among borrowers of different income levels. The distribution of home purchase generally approximates the income characteristics of the assessment area. While home purchase loans to low-income families are below the level compared to the demographics of the assessment area, home purchase loans by moderate-income families approximates the percentage by number of moderate-income families. Borrowing for home purchases by low-income individuals is limited due to the low level of affordable housing stock available in the area. Additionally, 18% of the population residing in the assessment area is below poverty level.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	16.96		17.28		23.35		42.41	
	% of Number	% of Amount						
	9.68	3.61	22.58	14.32	19.35	15.05	48.39	67.02

The distribution of consumer loans reflects an excellent penetration among borrowers of different income levels. The distribution of loans to low and moderate income borrowers exceeds the percentage of low and moderate income households in the assessment area.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	21.86		15.07		19.22		43.85	
	% of Number	% of Amount						
	36.36	31.20	22.73	23.23	22.73	24.44	18.18	21.13

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on U.S. Census information, there are 4,063 businesses in the assessment area with revenues less than \$1 million. This number represents 60.76% of all businesses and 94.69% of all businesses with income reported within the assessment area. The distribution of commercial loans is less than the income characteristics of the assessment area. However, a substantial majority of the bank's loans are to small businesses. Additionally, 36% of businesses in the area did not report revenues which could significantly impact the percentages of small and large businesses.

<b>BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES</b>		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	94.69	5.31
% of Bank Loans in AA #	81.82	18.18
% of Bank Loans in AA \$	59.39	40.61

The distribution of agriculture loans reflects a satisfactory penetration among farms of different sizes. Based on U.S. Census information, there are 389 farms in the assessment area with revenues less than \$1 million. This number represents 94% of all farms with income reported within the assessment area. The distribution of agriculture loans is near to the income characteristics of the assessment area.

<b>BORROWER DISTRIBUTION OF SMALL LOANS TO FARMS</b>		
Farm Revenues	≤\$1,000,000	>\$1,000,000
% of AA Farms	93.96	6.04
% of Bank Loans in AA #	86.96	13.04
% of Bank Loans in AA \$	68.67	31.33

### **Geographic Distribution of Loans**

All block numbering areas and census tracts within the bank's assessment area are middle-income geographies. There are no low- or moderate-income geographies in the assessment area. Therefore, we did not complete a review of the bank's geographic distribution of loans.

### **Responses to Complaints**

There have been no written complaints related to CRA performance received since the prior CRA examination.

### **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.