



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

August 20, 2009

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The City National Bank of Sulphur Springs  
Charter Number: 3989

201 Connally Street  
Sulphur Springs, TX 75482

Office of the Comptroller of the Currency

Longview Field Office  
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**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 Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

The major factors that support this rating include:

- City National Bank demonstrates satisfactory responsiveness to the credit needs of its assessment area. The bank's loan-to-deposit ratio is reasonable and a majority of the bank's loans were within its designated assessment area. The distribution of these loans by borrower income level reflects a reasonable penetration to all income levels.
- The level of qualified community development services, investments, and loans represents adequate responsiveness to identified community development needs. City National Bank's delivery systems are reasonably accessible to individuals of different income levels and throughout its assessment area. The bank made qualified investments during the evaluation period totaling \$7 thousand or approximately 0.03% of Tier 1 Capital.

## **Scope of Examination**

Conclusions regarding the bank's lending performance are based on residential mortgage, small business and agriculture loans for the years 2007, 2008 and year-to-date 2009. For the community development test, the evaluation period runs from the ending date of the last CRA evaluation period to the stated date of the current CRA examination. This test includes a review of the investments, services and loans provided in the bank's assessment area that meet the definition of community development.

The bank's assessment area includes Hopkins, Franklin, Wood, and Rains Counties. This area includes all of the bank's branch locations and ATM services and received a full scope review of the bank's performance under the Community Reinvestment Act.

Our review also included contacts with local business groups in the assessment area. These contacts stated the primary need in the area is for small commercial loans and residential loans. One contact noted the overall lack of available housing, especially affordable housing for low and moderate-income individuals. This contact also noted the lack of home sales with no significant residential developments in the area. Each contact stated the local financial institutions offer products that help meet all other credit needs and are responsive to community needs and activities.

## Description of Institution

City National Bank (CNB), headquartered in Sulphur Springs, Texas, is an intrastate financial institution with \$347 million in assets. The bank is wholly owned by Sulphur Springs Bancshares, Inc., a one bank holding company. CNB has 7 full service branches throughout the assessment area with an additional mortgage office located in Sulphur Springs. The bank also operates 10 automatic teller machines located at each branch location with additional locations in area convenience stores. The bank's offices are all located in the non-metropolitan counties of Hopkins, Franklin, Wood and Rains.

CNB's philosophy is to be a full service institution by providing a wide array of financial services to consumers and commercial businesses. CNB is both retail and commercial oriented and offers a wide range of deposit and loan products. As of June 30, 2009, the bank's net loans represented 77% of total assets. The following chart reflects the distribution of the bank's loan portfolio:

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Residential Real Estate Loans	88,226	33.26
Commercial Real Estate Loans	67,202	25.33
Commercial Loans	32,549	12.27
Agriculture Real Estate Loans	22,415	8.45
Agriculture Loans	28,597	10.78
Consumer Loans	26,299	9.91
<b>Total</b>	<b>265,288</b>	<b>100.00%</b>

There are no legal, financial or other factors impeding the bank's ability to help meet the credit needs in its assessment area. CNB's Tier 1 Capital level was \$28 million representing 8.10% of adjusted average assets as of June 30, 2009. The bank's CRA performance was last evaluated as of October 10, 2006, with an overall level of performance rated "Satisfactory."

## Description of Assessment Area

The bank's assessment area (AA) consists of Hopkins, Franklin, Wood and Rains counties. There are 21 census tracts in this assessment area which are all middle income tracts with no tracts designated as low or moderate-income. This assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude low or moderate-income geographies.

The following table provides a description of the AA based on census data and 2008 Department of Housing and Urban Development information.

<b>Demographic and Economic Characteristics of AA</b>	
<i>Population</i>	
Number of Families	25,059
Number of Households	34,257
<i>Geographies</i>	
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
2008 HUD-Adjusted MFI	41,800
<i>Economic Indicators</i>	
Unemployment Rate	7.6%
2008 Median Housing Value	\$64,210
% of Households Below Poverty Level	14.63%

*Source: 2000 US Census and 2008 HUD updated MFI*

The Sulphur Springs AA has a combined population of 87,309. Several other institutions compete in this market with CNB having the largest market share of deposits with 21% of the area deposits. CNB is both retail and commercial oriented with a focus on mortgage and commercial lending. The area economy is considered stable. Major employers in the Sulphur Springs area include Ocean Spray Cranberries, Inc., Morningstar Foods, Inc., Owens Country Sausage, Inc., and Grocery Supply Company.

## Conclusions with Respect to Performance Tests

### LENDING TEST

The bank's performance under the lending test is satisfactory. The bank's loan-to-deposit ratio is satisfactory and a majority of the bank's loans were within its designated assessment area. The distribution of these loans by borrower income level reflects a reasonable penetration to all income levels.

#### 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 85.28% since the prior CRA examination dated October 10, 2006. The average loan-to-deposit ratio of other banks within the assessment area for the same time period was 72.51%.

Institution	Assets (000s) (as of 6/30/09)	Average LTD Ratio
City National Bank, Sulphur Springs	346,517	85.28
Alliance Bank, Sulphur Springs	494,416	87.63
Bank Texas, Quitman	211,228	65.39
First National Bank, Winnsboro	144,391	111.74
Wood County National Bank, Quitman	69,214	59.27
First National Bank, Emory	107,714	48.99
First National Bank, Mt. Vernon	130,325	62.03
<b>Average Loan to Deposit Ratio</b>		72.51

#### Lending in Assessment Area

A majority of the bank's lending activity is located within its assessment area. We reviewed a sample of 21 residential purchase loans, 22 commercial loans and 24 agriculture loans which originated during 2007, 2008, and year-to-date 2009. The breakdown by loan category is illustrated in the following table.

<b>Lending in Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	20	95.24	1	4.76	21	1,743	92.71	137	7.29	1,879
Commercial	21	95.45	1	4.55	22	3,159	97.68	75	2.32	3,234
Agricultural	20	83.33	4	16.67	24	1,807	97.77	41	2.23	1,848
Totals	61	91.04	6	8.96	67	6,708	96.36	253	3.64	100.00

Source: Data collected by the bank.

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

City National Bank’s distribution of loans by income level is satisfactory given the overall demographics of the bank’s assessment area. The median cost of housing in the assessment area is \$64 thousand while a low-income person earns less than \$21 thousand based on 2008 HUD updated median family income. Based on information provided by contacts within the assessment area, housing stock is low with little turnover in properties. Affordable housing is also very low. Furthermore, competition for home mortgage products is strong with numerous bank, mortgage companies and financial institutions vying for these products. We considered these mitigating factors in our home mortgage lending analysis to low and moderate-income borrowers.

The distribution of home purchase loans by borrower income level is satisfactory. The percentage of loans to low-income borrowers is less than the percentage of low-income families and is reflective of the factors discussed above. However, the percentage of loans to moderate-income borrowers exceeds the percentage of moderate-income families.

<b>Residential Real Estate</b>								
	LOW INCOME BORROWERS		MODERATE INCOME BORROWERS		MIDDLE INCOME BORROWERS		UPPER INCOME BORROWERS	
	% of AA Families	% of Bank Loans	% of AA Families	% of Bank Loans	% of AA Families	% of Bank Loans	% of AA Families	% of Bank Loans
	16.96	10.00	17.28	25.00	23.35	15.00	42.41	50.00

Source: Data collected by bank; U.S. Census data

The bank’s distribution of loans to small businesses is satisfactory. The percentage of loans to businesses with revenues of \$1 million or less exceeds the percentage of businesses with revenues of \$1 million or less.

<b>Borrower Distribution of Loans to Businesses</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	53.33	2.60	44.07	100%
% of Bank Loans in AA by #	57.14	42.86	0.00	100%
% of Bank Loans in AA by \$	34.03	65.97	0.00	100%

Source: Data collected by bank; Dun and Bradstreet data.

The bank’s distribution of loans to small farms is adequate. The percentage of loans to farms with revenues of \$1 million or less is less than the percentage of farms with revenues of \$1 million or less.

<b>Borrower Distribution of Loans to Farms</b>				
Farms Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	97.99	0.89	1.12	100%
% of Bank Loans in AA by #	75.00	25.00	0.00	100%
% of Bank Loans in AA by \$	83.51	16.49	0.00	100%

Source: Data collected by bank; Dun and Bradstreet data.

### **Responses to Complaints**

There have been no CRA related complaints received during this evaluation process.

### **COMMUNITY DEVELOPMENT TEST**

The bank’s overall performance under the community development test is satisfactory. The bank has provided an adequate level of community development services, investments and loans in its assessment area where opportunities are limited. This area is a non-metropolitan area that is predominantly middle and upper income with few opportunities which meet the qualifications of community development for CRA purposes.

### **Number and Amount of Community Development Loans**

CNB has one loan totaling \$72.5 thousand which qualified as community development during this evaluation period.

### **Number and Amount of Qualified Investments**

City National Bank has provided an adequate level of community development investments in its assessment areas. During this evaluation period, the bank made four qualified investments totaling \$7 thousand. Investments include donations to local organizations that provide community services. CNB also provided numerous donations to local individuals and families in need of assistance for medical and other expenses, although no support was provided to determine the eligibility for community development donations.

## **Extent to Which the Bank Provides Community Development Services**

CNB has provided a satisfactory level of community development services throughout its assessment areas. The delivery systems of the bank are reasonably accessible to all geographies and individuals of different income levels in its assessment areas. The bank operates 7 banking offices that are conveniently located throughout the assessment area. Additionally, a wide range of financial services are provided at each branch and are consistent throughout the bank's branch network. The bank offers ATMs at each branch location as well as offering telephone and Internet banking services, ACH deposits, and low cost checking accounts.

CNB is one of three local banks that have actively participated in the initiation of a local CDC which will provide opportunities for low and moderate income families to purchase residential property. Nehemiah's Foundation has been established to provide financial education, new housing development and housing revitalization in the Sulphur Springs area. CNB has taken an aggressive lead in the development of the Foundations housing development program and is financing the Foundations first housing construction project. Permanent funding will be provided by the three local banks actively involved in the foundation through participations to the CDC.

## **Responsiveness to Community Development Needs**

The bank has demonstrated a satisfactory responsiveness to community development needs in its assessment area. CNB is one of the primary lenders and depository banks in the area, offering products and services which meet the needs of all individuals and geographies, regardless of income levels. Additionally, CNB officers and employees are actively involved in community organizations as well as organizations designed to retain and establish businesses in the area that are vital in providing jobs and stability to the local economy.

## **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.