



Office of the  
Comptroller of the Currency  
Washington, DC 20219

# INTERMEDIATE SMALL BANK

## PUBLIC DISCLOSURE

May 26, 2015

## 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

1800 NW Loop 281; Suite 306; Longview, TX 75604-2516

**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 (CNB) demonstrates satisfactory responsiveness to the credit needs of its assessment area. The bank's loan-to-deposit ratio is more than reasonable and a majority of the bank's loans were originated 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. CNBs delivery systems are reasonably accessible to individuals of different income levels and throughout its assessment area.

## **Scope of Examination**

Conclusions regarding the bank's lending performance are based on a sample of the bank's primary lending products that include residential mortgages, business and consumer loans for 2014 and year-to-date 2015. Our sample included twenty-three residential mortgages, twenty-two business loans and twenty-four consumer loans. For the community development test, the evaluation period runs from June 18, 2012 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.

There are no designated low or moderate income tracts within the assessment area; therefore, a geographic analysis of the loans reviewed was not performed.

## **Description of Institution**

City National Bank is headquartered in Sulphur Springs, Texas. CNB is an intrastate financial institution with assets totaling \$456 million. The bank is wholly owned by Sulphur Springs Bancshares, Inc., a one bank holding company. CNB has eight full service branches throughout the assessment area with an additional mortgage office located in Sulphur Springs. The bank also operates ten ATMs located at eight branch locations with additional locations in area convenience stores. The bank's offices are all located in the non-metropolitan counties of Hopkins, Wood, Franklin, and census tract 9501 in Rains County.

CNBs philosophy is to be a full service institution by providing a wide array of financial services to consumers and commercial businesses. As of March 31, 2015, the bank's net loans represented 72 percent 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	143,478	43.18
Commercial Real Estate Loans	80,948	24.36
Commercial Loans	30,527	9.19
Agriculture Real Estate Loans	22,026	6.63
Agriculture Loans	23,886	7.19
Consumer Loans	31,421	9.45
<b>Total</b>	<b>332,286</b>	<b>100.00%</b>

Our review also included meetings with individuals representing local business groups in the assessment area. These individuals stated the primary credit needs in the area are general consumer loan products and small business loans. One individual noted that there is a need for small dollar lines of credit to small businesses. One individual stated the local financial institutions are responsive to community needs and activities. In addition, they indicated that while there is sufficient low-end housing, there is a need for mid-range housing in the \$100 to \$150 thousand range.

There are no legal, financial or other factors impeding the bank's ability to help meet the credit needs in its assessment area. CNBs tier 1 capital equaled \$43 million representing 9.62 percent of adjusted average assets as of March 31, 2015. The bank's CRA performance was last evaluated as of June 18, 2012, with a performance rating of "Satisfactory."

## Description of Assessment Area

The bank's assessment area (AA) consists of Hopkins County, Wood County, Franklin County and census tract 9501 in Rains County. There are 20 middle-income census tracts and three upper-income tracts in the assessment area 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 2014 Department of Housing and Urban Development information.

<b>Demographic and Economic Characteristics of AA</b>	
<i>Population</i>	
Number of Families	25,517
Number of Households	35,132
<i>Geographies</i>	
Number of Census Tracts/BNA	23
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	0.00%
% Middle-Income Census Tracts/BNA	86.96%
% Upper-Income Census Tracts/BNA	13.04%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	51,275
2014 HUD-Adjusted MFI	47,817
<i>Economic Indicators</i>	
2014 Unemployment Rate	4.15%
2014 Median Housing Value	\$96,294
% of Households Below Poverty Level	14.27%

*Source: 2000 US Census and 2011 HUD updated MFI*

The Sulphur Springs AA has a combined population of 94,128. Several other institutions compete in this market with CNB having the second largest market share of deposits at 32.63 percent. CNB has a retail oriented business strategy with a focus on 1-4 family mortgages and consumer loans followed by commercial loans. 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., Grocery Supply Company, and Sulphur Springs Independent School District.

## 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 more than reasonable and a majority of the bank's loans were originated within its designated assessment area. Additionally, the distribution of loans by income level represents a reasonable penetration among borrowers of different income levels.

### Loan-to-Deposit Ratio

The loan-to-deposit ratio of CNB is more than reasonable given the bank's size, financial condition and assessment area credit needs. The bank's quarterly loan-to-deposit ratio averaged 79.44 percent since the prior CRA examination dated June 18, 2012. The average loan-to-deposit ratio of all banks within the assessment area for the same time period was 62.38 percent.

Institution	Assets (000s) (as of 3/31/15)	Average LTD Ratio
<b>City National Bank, Sulphur Springs</b>	<b>453,642</b>	<b>79.44</b>
Mineola Community Bank, Mineola	184,261	77.45
BTH Bank, N.A., Quitman	644,753	76.26
First National Bank, Winnsboro	138,410	71.48
Alliance Bank, Sulphur Springs	642,920	52.68
First National Bank, Mt. Vernon	210,333	40.61
First National Bank, Emory	113,502	38.74
<b>Average Loan to Deposit Ratio</b>		<b>62.38</b>

### Lending in Assessment Area

A majority of the bank's lending activity is located inside its assessment area. Our initial sample included twenty residential mortgages, twenty commercial loans, and twenty consumer loans originated during 2014 and year-to-date 2015. The breakdown by loan category is illustrated in the following table.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	17	85.00	3	15.00	20	1,999	82.33	429	17.67	2,428
Consumer	16	80.00	4	20.00	20	204	91.89	18	8.11	222
Commercial	18	90.00	2	10.00	20	1,457	98.11	28	1.89	1,485
Totals	51	85.00	9	15.00	60	3,660	88.51	475	11.49	4,135

Source: Loan Sample

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

City National Bank’s distribution of loans by income level represents a reasonable penetration among borrowers within the bank’s assessment area. The distribution of residential mortgage loans by borrower income level is reasonable as depicted in the following chart.

<b>Borrower Distribution of Residential Real Estate Loans</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
Residential Mortgages	17.83	10.00	18.12	10.00	20.19	25.00	43.86	55.00

Source: Loan Sample; U.S. Census data

The distribution of consumer loans by borrower income level is reasonable as depicted in the following chart. While the penetration of consumer loans to low income individuals is below the percentage of low income households, the penetration of loans to moderate income individuals far exceeds the demographics.

<b>Borrower Distribution of Consumer Loans</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	20.56	15.00	15.68	40.00	18.66	15.00	45.10	30.00

Source: Loan Sample; U.S. Census data

The bank’s distribution of loans to small businesses is reasonable. The percentage of loans to businesses with revenues of \$1 million or less is near to the percentage of small businesses located within the bank’s assessment area.

<b>Borrower Distribution of Loans to Businesses</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	75.87	2.83	21.30	100%
% of Bank Loans in AA by #	70.00	30.00	0.00	100%
% of Bank Loans in AA by \$	81.04	18.96	0.00	100%

Source: Loan sample; Dun and Bradstreet data.

**Responses to Complaints**

There have been no CRA related complaints received during the evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

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

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

CNB has two loans totaling \$28 thousand, which qualified as community development during this evaluation period.

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

CNB has provided an adequate level of community development investments in its assessment areas. During this evaluation period, the bank made donations and qualified investments totaling \$777 thousand or approximately 1.78 percent of tier 1 capital.

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

CNB has provided an adequate level of community development services throughout its assessment area. The delivery systems of the bank are reasonably accessible to all geographies and individuals of different income levels. The bank operates nine 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 eight branch locations and two convenience stores, as well as offering telephone and Internet banking services, ACH deposits, low cost checking accounts, remote deposit capture, and corporate cash management.

Additionally, CNB participates in the Homebuyer Equity Leverage Program (HELP) through the Federal Home Loan Bank of Dallas. HELP provides grant funds for down payment and closing cost for eligible first-time homebuyers.

### **Responsiveness to Community Development Needs**

The bank has demonstrated an adequate 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**

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 FSAs lending performance.

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