



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

June 18, 2012

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Community National Bank  
Charter Number 18054

401 West Texas Avenue, Suite 100  
Midland, TX 79701

Office of the Comptroller of the Currency

5225 South Loop 289, Suite 108  
Lubbock, TX 79424-1319

**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**

Community National Bank (CNB) has a satisfactory record of meeting community credit needs based on the following:

- CNB's loan-to-deposit ratio is reasonable when compared to banks of similar size and characteristics in or near the assessment areas (AAs). The loan-to-deposit ratio averages 62 percent.
- A substantial majority of CNB's loans are within the bank's AAs. Approximately 88 percent of the number and 85 percent of the dollar volume of loans were to borrowers within the AAs.
- The lending performance to individuals of different income levels and to businesses of different sizes is reasonable.
- The geographic distribution of loans reflects a reasonable dispersion throughout the AAs.
- CNB's community development performance demonstrates a reasonable responsiveness to the needs of its AAs through community development loans, qualified investments, and community development services, as appropriate.

## **Scope of Examination**

This Performance Evaluation of CNB assesses the bank's record of meeting the credit needs of the communities in which it operates. We evaluated CNB under the Intermediate Small Bank performance criteria, which include a Lending Test and a Community Development Test. The Lending Test evaluates a bank's record of helping to meet the credit needs of its AAs through its lending activities. The Community Development Test evaluates a bank's community development lending, qualified investments, and community development services. This evaluation covers the period from the date of the previous CRA Examination, August 21, 2008, through December 31, 2011.

- Lending Test conclusions are based on the lending performance of the bank's primary loan products. We evaluated small business, small farm, consumer, and residential mortgage lending from January 1, 2009 through December 31, 2011. Prior to conducting this evaluation, we tested the accuracy of the bank's Home Mortgage Disclosure Act (HMDA) data. We found the data to be substantially accurate; therefore, we used reported HMDA data for January 1, 2009 through December 31, 2011.
- Conclusions regarding the Community Development Test are based on investments, services, and loans completed in CNB's AAs, which meet the definition of community development.

We conducted the Community Development Test using information from the previous CRA evaluation period, August 21, 2008, through May 31, 2012.

- Our analysis included a full-scope evaluation for the Midland Metropolitan Statistical Area (MSA) AA. Approximately 78 percent of the bank’s loans and 89 percent of deposits are within this AA. The Midland MSA AA contains 8 of the bank’s 11 offices, including the main office. We performed limited-scope evaluations for the Ector County MSA AA (two branches) and the Martin County AA (one branch).
- We performed the analysis for the Lending Test using the most recent available demographic data. We analyzed lending performance using a loan sample of 3,568 loans. The loan sample consisted of 3,478 small business, small farm, and residential mortgage loans reported as part of the bank’s HMDA submission and 90 consumer loans for each primary loan type by AA as detailed below:

<u>Assessment Area</u>	<u>Primary Loan Types</u>
Midland MSA	Business and Consumer
Ector County MSA	Business and Consumer
Martin County	Farm and Consumer

## Description of Institution

CNB is an intrastate bank located in Midland, Texas (TX) and was chartered in 1984. CNB is a wholly owned subsidiary of Midland Bancshares, Inc. (MBI), a one-bank holding company headquartered in Midland, TX. MBI reported assets of \$809 million as of December 31, 2011.

CNB has eleven offices and operates seven automated teller machines (ATMs) in three AAs. Eight locations, including the main banking office, are located within the Midland MSA. Two offices are located in Odessa, TX, which is included in the Ector County MSA. One office is located in Stanton, TX, which is in the non-MSA Martin County. All AAs consist of contiguous census tracts (CTs) and do not arbitrarily exclude any low- or moderate-income geographies.

This Office assigned a “Satisfactory” rating under Intermediate Small Bank criteria in the prior Public Evaluation dated August 21, 2008. Since that evaluation, CNB opened one branch in Odessa in November 21, 2008. CNB also relocated one branch in Midland (Northwest branch to Tremont) on May 9, 2011.

As of December 31, 2011, CNB had total assets of \$808 million with net loans and leases at 55.8 percent of this total. CNB’s primary business is commercial lending. CNB has an oil and gas department that has increased lending due to the activity in the oil and gas industry within the AAs. CNB also has a mortgage department which offers 10-, 15-, 20-, and 30-year mortgages with conventional, FHA, and VA financing. See the following chart for additional information on the composition of the bank’s loan portfolio as of December 31, 2011.

<b>Loan Type</b>	<b>\$ (000)</b>	<b>%</b>
Commercial	215,864	51.60
Commercial Real Estate	111,658	26.69
Residential Real Estate	51,115	12.22
Agricultural Real Estate	20,143	4.81
Consumer	10,424	2.49
Other	6,495	1.55
Agriculture	2,654	0.64
Political Subdivisions	0	0.00
<b>TOTAL</b>	<b>\$418,353</b>	<b>100%</b>

*Source: December 31, 2011 Consolidated Report of Condition (Call Report)*

Management's and the Board's primary focus is to operate a strong, locally-owned, independent financial institution that serves customers in West Texas while providing a return to shareholders. CNB offers a wide range of traditional deposit and loan products. Branches are accessible to individuals located in the different areas of the communities they serve. Lobby and drive-up hours are set by location to meet customer needs. CNB has ATMs located at six branches and a stand-alone location in Midland to make customer accounts accessible. Customers may also access their accounts through the bank's website at [www.cnbtx.net](http://www.cnbtx.net). Services include account balance inquiries, funds transfer, and bill payment. The bank also offers 24-hour telephone banking. Services include account balance inquiries, loan payments, and verification of direct deposits and ATM activity. The bank also offers a debit card that provides customers with additional access to their accounts at point of sale or ATM locations.

CNB has no legal or financial circumstances that could impede the bank's ability to help meet the credit needs within the AAs. The bank is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks.

## **Description of Assessment Area(s)**

CNB has three AAs which consist of two MSAs and one non-MSA area. The Midland MSA AA contains eight of the bank's eleven offices, including the main office, and five of the seven ATMs. The Odessa MSA AA contains two of the bank's eleven offices and two of the ATMs. Martin County AA contains one of the eleven offices. All AAs include whole counties which consist of contiguous CTs and do not exclude any low- or moderate-income geographies.

### **Midland MSA AA**

This AA consists of Midland County, Texas. The city of Midland is the county seat and the largest city in the county. The main bank and seven branches are located in the Midland MSA AA. The following table provides a description of the Midland MSA AA based on census data and Department of Housing and Urban Development (HUD) information.

<b>Demographic and Economic Characteristics of Midland MSA AA</b>	
<i>Population</i>	
Number of Families	31,158
Number of Households	42,751
<i>Geographies</i>	
Number of Census Tracts	27
% Low-Income Census Tracts	7.41%
% Moderate-Income Census Tracts	22.22%
% Middle-Income Census Tracts	40.74%
% Upper-Income Census Tracts	29.63%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$47,309
2009 HUD-Adjusted MFI	\$60,200
2010 HUD-Adjusted MFI	\$63,000
2011 HUD-Adjusted MFI	\$66,000
<i>Economic Indicators</i>	
Unemployment Rate	3.70%
2007 Median Housing Value	\$74,413
% of Households Below Poverty Level	12.12%

*Source: 2000 Census data and HUD updated income data.*

The AA consists of whole geographies and does not arbitrarily exclude low- and moderate-income geographies. According to the 2000 Census, the AA includes 27 CTs with a total population of 116,009. The CTs consist of two low-, six moderate-, eleven middle-, and eight upper-income tracts. The 2000 Census data reflects that 12.12 percent of the households in the Midland MSA AA are below the poverty level.

According to 2000 Census data, there are 48,060 housing units in the AA, of which 61.9 percent are owner-occupied, 27.1 percent are renter-occupied, and 11.0 percent are vacant. Approximately 20.9 percent of families in the AA are considered low-income. Moderate-income families approximate 18.6 percent, while middle- and upper-income families make up the remaining 60.5 percent. The median housing value is \$74,413 with the median age of housing stock at 38 years.

The city of Midland is at the center of the 100-mile radius of the Permian Basin. Midland is also considered the center of the oil and gas industry in the Permian Basin. The main focus of the Midland MSA AA economy is oil and gas and businesses that support this industry. The Permian Basin produces approximately 17 percent of the United States' oil. Due to the high level of economic activity from the oil and gas industry, Midland has experienced severe shortages both in labor and housing. The oil and gas industries are able to pay higher wages and, as a result, have left local, non-oil related businesses in need of labor. Record prices for oil came early in 2008 approaching \$150 per barrel and currently average around \$100 per barrel. The oil and gas industries in the AA are some of the larger companies in the area, along with Midland Independent School District, Midland Memorial Hospital, and the City of Midland. Midland currently has the lowest unemployment rate in Texas at 3.7 percent. Retail sales are booming due to the oil economy, which also brings a strong shortage in housing, apartments, hotel rooms,

and rental cars. The Midland-Odessa economy has grown 13.5 percent in the last year. New businesses and the oil and gas industry are creating jobs for people, but this also brings concerns for housing and water. Hotels and motels have produced more revenue in the recent months due to the limited availability for housing and the increase in rental rates for apartments and houses. According to the Permian Basin Board of Realtors, in February 2012 there were only 178 homes on the market for sale. Between March 2011 and March 2012, homes were on the market an average of 71 days, and the current average is 54 days or less. The average sales price in 2012 is around \$250,000 compared to \$200,000 in 2011. With a higher percentage of home sales in this price range, there is a strong demand for affordable housing to meet low- and moderate-income individuals' needs. Apartment complexes are at 98 percent to 100 percent occupancy with waiting lists. Rental rates have increased between 25 and 40 percent during the last year. The average cost of a one-bedroom apartment is \$900 per month.

The Midland MSA AA is experiencing a severe shortage of water supply. According to the US Drought Monitor, Midland is currently registering as D3 – Extreme Drought Intensity. Midland receives approximately 14.6 inches of precipitation per year. October 2010 to June 2011 brought only 0.18 inches of precipitation, one of the driest consecutive nine months since 1950. Annual precipitation for 2011 was 5.49 inches. Midland's primary water source is the Colorado River Municipal Water District, which consists of Lake Thomas, Lake Spence, and Lake Ivie. The Colorado River Municipal Water District has reduced water deliveries from 22 million gallons a day to 13.9 million gallons a day due to the extreme drought conditions. All three reservoirs are predicted to be dry by January 2013 without significant rainfall – Lake Ivie is less than 30 percent full; Lake Spence is 2 percent full; and Lake Thomas is 5 percent full.

The City of Midland has implemented a Drought Contingency Plan which imposes water restrictions on residents and businesses that tap into the city's water supply. Stage 1 of the Drought Contingency Plan began April 1, 2011; Stage 2 became effective July 1, 2011; and Stage 3 became effective April 1, 2012. The Drought Contingency Plan also imposes fines up to \$500 for those who do not comply with the restrictions. Along with imposed restrictions and fines, the city increased rates on water usage from \$3.91 per thousand gallons used to \$19.55 per thousand gallons used between 10,000 and 25,000 gallons. Those over 25,000 gallons will see rates of \$22.50 per thousand gallons used. The water shortage also brings serious concerns for the Midland economy. Stage 4 of the Drought Contingency plan states that no applications for new, additional, expanded, or increased-in-size water service connections, meters, service lines, pipeline extensions, mains, or water service facilities of any kind shall be allowed or approved, which could seriously jeopardize the housing and new business markets.

Effective July 1, 2011, the Federal Emergency Management Agency (FEMA) declared a major disaster for the state of Texas due to wildfires. Midland County is included in the declaration. The U.S. Department of Agriculture has also declared the entire state of Texas a natural disaster area due to drought and wildfires.

Competition for financial services in the AA is very strong. The June 30, 2011, FDIC Deposit Market Share Report for Midland MSA AA shows \$4.6 billion of deposits divided among 14 financial institutions with a total of 46 offices. The AA includes four branches from multi-national banks and several community banks. The top two banks, which are members of nation-

wide organizations, have eight offices (combined) in the Midland MSA AA and hold over 40 percent of AA deposits. CNB has eight offices in the Midland MSA AA and holds \$574 million of AA deposits, which is approximately 12 percent of the deposit market share.

As part of this CRA examination, we made one community contact in the Midland MSA AA to help ascertain the credit needs of the AA. The community contact noted that there are several opportunities to participate in community service activities including lending for affordable housing, both single family and rental, and small-dollar loans to small businesses. The contact also indicated that local banks are responsive to meeting the credit needs of the community.

**Ector County MSA AA**

The Ector County MSA AA consists of Ector County, which includes the city of Odessa. The city of Odessa is the county seat and the largest city in the county. CNB has two full-service branches in Odessa. The first branch opened in downtown Odessa in October 2005, and the second branch opened on the east side of Odessa in November 2008. The following table provides a description of the Ector County MSA AA based on census data and Department of Housing and Urban Development information.

<b>Demographic and Economic Characteristics of Ector County AA</b>	
<i>Population</i>	
Number of Families	31,856
Number of Households	43,806
<i>Geographies</i>	
Number of Census Tracts	29
% Low-Income Census Tracts	3.45%
% Moderate-Income Census Tracts	20.69%
% Middle-Income Census Tracts	41.38%
% Upper-Income Census Tracts	34.48%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$36,250
2009 HUD-Adjusted MFI	\$49,000
2010 HUD-Adjusted MFI	\$53,200
2011 HUD-Adjusted MFI	\$55,700
<i>Economic Indicators</i>	
Unemployment Rate	4.60%
2007 Median Housing Value	\$49,407
% of Households Below Poverty Level	18.38%

*Source: 2000 Census data and HUD updated income data.*

The AA consists of whole geographies and does not arbitrarily exclude low- and moderate-income geographies. The AA is comprised of 29 CTs consisting of one low-income, six moderate-income, twelve middle-income, and ten upper-income tracts, with a total population of 121,123. The 2000 Census data reflects that 18.38 percent of the households in the AA are below the poverty level.

According to 2000 Census data, there are 49,500 housing units in the AA, of which 60.8 percent are owner-occupied, 27.8 percent are renter-occupied, and 11.4 percent are vacant. Approximately 21.2 percent of families in the AA are considered low-income. Moderate-income families approximate 17.5 percent, while middle- and upper-income families make up the remaining 61.3 percent. The median housing value is \$49,407 with the median age of housing stock at 42 years.

The city of Odessa is located in the Permian Basin and is heavily reliant on the oil and gas industry. Due to the increased activity in the oil and gas industry, many oil and gas companies are the leading employers in the AA. Other major employers include Ector County Independent School District, City of Odessa, and the hospitals. Odessa has an unemployment rate of 4.6 percent. Odessa is also experiencing a severe shortage in the housing market due to the increase in oil and gas activity. Apartment complexes are 97 percent occupied with the average rent of a two-bedroom apartment up 57 percent from \$466 to \$733. According to the Odessa Multiple Listing Service, there are approximately 156 homes for sale, and they average 30-35 days on the market. The average sales price of homes in Odessa has increased from \$144,000 in 2008 to \$152,000.

The Ector County MSA AA is experiencing a severe shortage of water supply. According to the U.S. Drought Monitor, Odessa is registering as a D3 – Extreme Drought Intensity. Odessa receives approximately 14.8 inches of precipitation per year. Odessa’s primary water source is the Colorado River Municipal Water District, which consists of Lake Thomas, Lake Spence, and Lake Ivie. Without significant rainfall, these water sources are expected to be dry by January 2013. The City of Odessa has implemented a Drought Contingency Plan which imposes restrictions on water usage for residents and businesses that tap into the city’s water supply. Violating water restrictions can result in fines of up to \$2,000, and repeat violators will have their water turned off. Effective April 1, 2012, the city also increased water rates from \$4.05 to \$10.35 per thousand gallons, depending on total usage.

Competition is strong in the Odessa MSA AA. The June 30, 2011, FDIC Deposit Market Share Report for the Odessa MSA AA shows \$2.2 billion of deposits divided among 17 financial institutions with a total of 39 offices. The AA includes five banks that are multi-national institutions and several area community banks. The top two banks are regional banks with a total of eight offices in the Odessa MSA AA, and they hold approximately 33 percent of AA deposits. CNB’s deposits in this AA total \$34.7 million, which is 15 percent of the deposit market share.

### **Martin County AA**

This AA consists of Martin County. The principal city in the AA is Stanton, which is also the county seat. The bank has one branch located in the AA, and it is in the city of Stanton. The following table provides a description of the Martin County AA based on census data and Department of Housing and Urban Development information.

<b>Demographic and Economic Characteristics of Martin County AA</b>	
<i>Population</i>	
Number of Families	1,271
Number of Households	1,636
<i>Geographies</i>	
Number of Census Tracts	2
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	0.00%
% Middle-Income Census Tracts	100.00%
% Upper-Income Census Tracts	0.00%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$36,380
2009 HUD-Adjusted MFI	\$45,600
2010 HUD-Adjusted MFI	\$46,500
2011 HUD-Adjusted MFI	\$48,600
<i>Economic Indicators</i>	
Unemployment Rate	4.10%
2006 Median Housing Value	\$49,773
% of Households Below Poverty Level	18.70%

*Source: 2000 Census data and HUD updated income data.*

The AA consists of whole geographies and does not arbitrarily exclude low- and moderate-income geographies. The AA is comprised of two CTs, both of which are middle-income. The 2000 Census data reflects that 18.7 percent of the households in Martin County are below the poverty level. Federal agencies have designated the CTs located in Martin County as distressed areas due to population losses.

According to 2000 Census data, the AA has a total population of 4,746. There are 1,898 housing units in the AA, of which 63.6 percent are owner-occupied, 22.0 percent are renter-occupied, and 14.4 percent are vacant. Approximately 19.8 percent of families in the AA are considered low-income. Moderate-income families approximate 18.7 percent, while middle- and upper-income families make up the remaining 61.5 percent. The median housing value is \$49,773 with the median age of housing stock at 42 years.

There are two financial institutions in the AA, which results in a moderate level of competition for financial services. In addition to the CNB branch, there is another locally owned national bank. The June 30, 2011 FDIC Deposit Market Share Report for Martin County shows \$109 million in deposits for the AA. CNB's deposits total \$28 million, which is approximately 26 percent of the deposit market share.

The Martin County AA is located in the Permian Basin, and the primary industries are agriculture and oil. The main agricultural products are cotton and cattle. Stanton Independent School District is one of the largest non-agricultural employers in the AA along with Rusty Backhoe Service, City of Stanton, Sharyland Utilities, and Texas Country Trucking & Logistics Company.

## Conclusions with Respect to Performance Tests

### LENDING TEST

The bank's performance under the Lending Test is rated Satisfactory.

#### Loan-to-Deposit Ratio

CNB's loan-to-deposit ratio meets the standard for satisfactory performance given the bank's size, financial condition, and the credit needs of the AAs. This determination is based on the bank's quarterly average loan-to-deposit ratio of 62.18 percent from September 30, 2008 through March 31, 2012. During the evaluation period, CNB's loan-to-deposit ratio ranged from a low of 51.23 percent to a high of 70.05 percent. The average loan-to-deposit ratio of similarly situated banks within or contiguous to the AAs for the same period was 64.53 percent. The quarterly average loan-to-deposit ratios for these similarly situated banks are depicted below.

<b>Loan-to-Deposit Ratios</b>		
<b>Institution</b>	<b>Total Assets \$ (000's) (As of 3/31/2012)</b>	<b>Average Loan-to- Deposit Ratio</b>
American State Bank, Lubbock	3,158,604	53.13%
<b>Community National Bank, Midland</b>	<b>877,465</b>	<b>62.18%</b>
First Capital Bank of Texas, NA, Midland	643,182	74.48%
West Texas National Bank, Midland	750,355	60.06%
Western National Bank of Midland	1,201,990	70.45%

*Source: Institution Reports of Condition from September 2008 to January 2012*

#### Lending in the Assessment Areas

CNB's lending within the combined AAs exceeds the standards for satisfactory performance. A substantial majority of the bank's loans were made within its AAs. In order to assess performance for this criterion, we reviewed 1,962 commercial, 138 farm, 90 consumer, and 1,378 home mortgage loans originated between January 1, 2009 and December 31, 2011. Our analysis determined that 87.53 percent of the number of loans and 84.74 percent of the dollar amount of loans in the sample were originated within the bank's combined AAs. The breakdown by loan category is depicted in the following table.

<b>Lending in all Assessment Areas</b>										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	1,739	88.63	223	11.37	100.0	287,377	85.80	47,575	14.20	100.0
Consumer	80	88.89	10	11.11	100.0	1,455	88.61	187	11.39	100.0
Agriculture	110	79.71	28	20.29	100.0	9,582	66.71	4,782	33.29	100.0
Home Mortgage	1,194	86.65	184	13.35	100.0	173,683	84.26	32,454	15.74	100.0
<b>Totals</b>	<b>3,123</b>	<b>87.53</b>	<b>445</b>	<b>12.47</b>	<b>100.0</b>	<b>472,097</b>	<b>84.74</b>	<b>84,998</b>	<b>15.26</b>	<b>100.0</b>

Source: Data reported under HMDA; Loan Sample

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

The distribution of loans made to individuals and families of different income levels and businesses of different sizes meets the standard for satisfactory performance, with emphasis on small business lending.

#### Midland MSA AA

The distribution of loans originated to businesses with revenues less than \$1 million is somewhat lower than the demographic by both the number of loans and dollar amount of loans. The percentage of businesses within the AA that generate revenues less than \$1 million is 76.19 percent based on independent data provided by Dunn and Bradstreet. CNB originated 51.49 percent of its total small business loans to businesses with revenues less than \$1 million. As noted in the performance context, the local economy is centered in oil and gas production and the companies that support this industry. The level of gross revenues generated by these business entities has been impacted by the dramatic increase in the price for oil and gas since the last evaluation. In addition, revenues are unknown for 19.04 percent of the businesses in the AA, which reduces the reliability of this analysis. The following table shows the distribution of commercial loans among businesses of different sizes in this AA.

<b>Borrower Distribution of Business Loans in Midland MSA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	<b>76.19%</b>	4.77%	19.04%	100%
% of Bank Loans in AA by #	<b>51.49%</b>	28.66%	19.85%	100%
% of Bank Loans in AA by \$	<b>43.56%</b>	46.01%	10.43%	100%

Source: Loan sample; Dunn and Bradstreet data

The distribution of consumer loans to low-income and moderate-income borrowers is near the percentage of respective households in the AA. The percentage of households within the AA that are low-income is 20.19 percent and moderate-income is 14.95 percent. Our loan sample reflected that 19.23 percent and 15.38 percent of consumer loans were made to low-income and moderate-income individuals, respectively. The distribution of consumer loans to middle-income borrowers exceeds the percentage of middle-income households in the AA. The following table reflects the distribution of loans among individuals of different income categories.

Borrower Distribution of Consumer Loans in Midland MSA AA								
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	<b>20.19</b>	<b>19.23</b>	<b>14.95</b>	<b>15.38</b>	17.68	30.77	47.18	34.62

Source: Loan sample; U.S. Census data

Residential loans to low-income borrowers are lower than the percentage of low-income families within this AA. However, the percentage of loans to moderate-income borrowers is near the level of moderate-income families in the AA. Approximately 21 percent of families are low-income, and 19 percent are moderate-income. Based upon the updated 2011 median family income for the area of \$66,900, low-income families in the AA earn less than \$33,450 per year. In addition, 10.28 percent of families in this AA are below poverty level. Based on 2000 Census data, the median housing cost was \$74,413. However, according to a Texas A&M University's Market Report released in 2012, the average sales price for homes listed in the Midland Multiple Listing Service for 2011 was \$210,500. It is often difficult for low- and moderate-income individuals to qualify for mortgage loans at median housing values due to insufficient income levels and/or down payments.

The following table reflects the analysis of HMDA reportable loans for January 1, 2009 through December 30, 2011. The analysis of HMDA reportable loans for 2008 is not inconsistent with the findings of the 2009 through 2011 analysis. Therefore, the table for 2008 is not included in this evaluation.

Borrower Distribution of Residential Real Estate Loans in Midland MSA								
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	20.88	6.57	18.60	19.28	19.33	25.21	41.20	48.94
Home Improvement	20.88	22.08	18.60	15.58	19.33	20.78	41.20	41.56
Refinancings	20.88	2.42	18.60	14.49	19.33	19.81	41.20	63.29
Total*	<b>20.88</b>	<b>8.30</b>	<b>18.60</b>	<b>17.27</b>	19.33	23.07	41.20	51.36

Source: 2009, 2010 and 2011 HMDA LARs and 7/1/08 – 12/31/08 HMDA Loan Register; U.S. Census data. \*5.56 percent of borrowers did not report income information.

### Conclusions for Areas Receiving Limited-Scope Reviews

Based on the limited-scope reviews, the bank's lending performance for borrowers of different income levels and businesses of different sizes in the Ector County MSA AA and the Martin County AA is consistent with the bank's overall performance.

## Geographic Distribution of Loans

CNB's geographic loan distribution meets the standard for satisfactory performance. Small business, consumer, and residential lending, with an emphasis on small business lending, reflects a reasonable dispersion throughout the AA.

### Midland MSA AA

The geographic distribution of sampled small business loans in low-income CTs is commensurate with the percentage of small businesses in these areas. The percentage of businesses located in low-income CTs is 5.10 percent, and our loan sample reflected that 5.03 percent of small business loans were located in low-income CTs. The distribution of sampled loans to small businesses in moderate-income CTs is somewhat below the percentage of small businesses in these areas. The following table summarizes the distribution of small business loans by CT income level.

Geographic Distribution of Loans to Businesses in Midland MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	<b>5.10</b>	<b>5.03</b>	<b>29.02</b>	<b>22.63</b>	35.82	37.66	30.06	34.68

Source: Loan sample; U.S. Census data.

The geographic distribution of sampled consumer loans is below the distribution of households located in low-income CTs. Approximately 4.63 percent of households in this AA are located in low-income CTs. Our loan sample found no loans originated in low-income CTs. The percentage of bank loans located in moderate-income CTs is somewhat lower than the distribution of households in these tracts. The following table shows the distribution of consumer loans made within the different geographies of this AA.

Geographic Distribution of Consumer Loans in Midland MSA								
Census Tract 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	<b>4.63</b>	<b>0.00</b>	<b>17.23</b>	<b>13.05</b>	44.58	56.52	33.56	30.43

Source: Loan sample; U.S. Census data.

The percentage distribution of residential loans is somewhat lower than the percentage of owner-occupied housing units in low-income CTs. In the AA, only 4.50 percent or 2,305 owner-occupied housing units are located in low-income geographies. This results in limited opportunities to make mortgage loans in these geographies. The percentage distribution of mortgage loans is also lower than the percentage of owner-occupied housing units in moderate-income CTs.

The following table reflects the analysis of HMDA reportable loans for January 1, 2009 through December 30, 2011. The analysis of HMDA reportable loans for 2008 is not inconsistent with the findings of the 2009 through 2011 analysis. Therefore, the table for 2008 is not included in this evaluation.

<b>Geographic Distribution of Residential Real Estate Loans in Midland MSA</b>								
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	4.50	1.62	18.42	9.51	44.68	41.70	32.40	47.17
Home Improvement	4.50	5.73	18.42	23.57	44.68	40.76	32.40	29.94
Refinancings	4.50	0.87	18.42	6.55	44.68	41.48	32.40	51.09
<b>Total</b>	<b>4.50</b>	<b>2.16</b>	<b>18.42</b>	<b>11.25</b>	44.68	41.48	32.40	45.11

Source: 2009, 2010 and 2011 HMDA LARs and 7/1/08 – 12/31/08 HMDA Loan Register; U.S. Census data.

### Conclusions for Areas Receiving Limited-Scope Reviews

Based on limited-scope reviews, the bank's lending performance for loan distribution of small business, consumer, and residential mortgage loans in the Ector County MSA AA is consistent with the bank's overall performance. The Martin County AA does not have any low- or moderate-income CTs. Therefore, we did not perform a geographic distribution analysis for this area.

### **Responses to Complaints**

There have been no consumer complaints relating to the bank's CRA performance during the evaluation period, and this has a neutral impact on the bank's overall performance.

## **COMMUNITY DEVELOPMENT TEST**

CNB's performance under the Community Development Test is rated Satisfactory.

The bank's community development performance reflects a reasonable responsiveness to community development needs within the combined AAs. The bank has conducted community development activities through a mix of loans, investments, and services. The availability of bank products has a positive impact on the overall community development rating. The branch distribution is excellent. More detail on the level of activity within each of the three components of the Community Development Test is provided below, along with the regulatory definition of community development.

According to the definition found in 12 CFR 25, community development means:

- Affordable 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 or have gross annual revenues of \$1 million or less; or
- Activities that revitalize or stabilize:
  - low- or moderate-income geographies;
  - designated disaster areas; or
  - distressed or underserved non-metropolitan middle-income geographies.

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

CNB originated 39 community development loans totaling approximately \$17.2 million during the evaluation period. CNB's performance in this area, with consideration given to the available opportunities, reflects reasonable responsiveness to the communities' needs.

In the Midland County MSA AA, CNB originated 21 loans totaling approximately \$13 million. CNB made two loans to the Midland Community Development Corporation (MCDC) for interim construction of new housing in the Midland MSA AA. These homes were constructed to provide affordable housing for low- to moderate-income individuals. CNB made 14 loans totaling \$1.6 million to various borrowers for interim construction financing for affordable 1-4 family homes. Additional loans were made for infrastructure improvement and community revitalization.

In the Ector County MSA AA, CNB originated six loans totaling approximately \$2.7 million. The proceeds were used for refinances, renovations, and to purchase apartment complexes that provide affordable housing to low- and moderate-income individuals.

In the Martin County AA, CNB originated 12 loans totaling approximately \$1.5 million for interim construction for new housing to revitalize a distressed non-metropolitan middle-income tract. The loans ranged from \$96,228 to \$264,000. The construction of these homes provides a short-term benefit to low- and moderate-income individuals in the community through the creation of temporary construction jobs.

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

During this evaluation period, CNB's qualified investments included donations to 22 organizations totaling approximately \$167,000. The level of investments reflects adequate responsiveness to the communities' needs. CNB's qualified investments in the Midland MSA AA included donations to 11 organizations totaling \$102,000. Qualified investments in the Ector County MSA AA included donations to 10 organizations for \$58,000. The \$6,000 qualified investment in the Martin County AA was a grant to one organization. All funds are specifically

targeted to benefit low- or moderate-income individuals or support organizations whose major purpose is revitalizing low- and moderate-income CTs within the AAs.

There is one commitment for a five-house project in the Midland MSA AA totaling \$1,000 per house to be disbursed as requested upon completion of each house. One disbursement has been made so far in 2012 for \$1,000 which benefits affordable housing in the area. At the next CRA examination, additional disbursements will be made upon completion of each project.

In addition to the above, the bank participates in the Certificate of Deposit Account Registry Service (CDARS) program as of 2009. According to the regulation, a deposit by a banking institution through a Community Development Financial Institution (CDFI) using CDARS can be considered a “qualified investment” for purposes of the “investment test” used to determine CRA performance. A CDFI is a bank that lends and provides other services in economically distressed areas. In addition, partnerships with minority- and women-owned financial institutions and low-income credit unions can be included. As of the examination, qualifying investments in 12 CDFIs and 2 minority-owned depository institutions totaled \$2.6 million.

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

CNB’s community development services include the bank's products, services, and branch locations that may provide assistance or community services to low- or moderate-income individuals. In addition to their full-service branch and ATM locations, CNB also offers Internet banking and telephone banking. Branch and ATM delivery systems include 11 full-service branch locations and 6 ATMs. CNB has three branches, or 27 percent of the bank's full-service locations, located in moderate-income CTs. The table below provides a summary of CNB’s branch and ATM distribution.

Distribution of Bank Offices and ATMs by Census Tract						
Census Tract Income Level	Tracts in AA		Full-Service Offices		Automated Teller Machines*	
	#	%	#	%	#	%
Low	2	3.44%	0	0.00%	0	0.00%
Moderate	12	20.69%	3	27.27%	2	40.00%
Middle	26	44.83%	5	45.46%	3	40.00%
Upper	18	31.04%	3	27.27%	1	20.00%
Total	58	100.00%	11	100.00%	6**	100.00%

Source: 2010 U.S. Census Data; \*No ATMs accept deposits; \*\*Includes 5 ATMs contiguous to banking locations.

Through its employees, CNB is also involved in a variety of community development services that reflect an adequate responsiveness to the communities’ needs. Many of the bank’s employees are involved with organizations that provide services to low- and moderate-income individuals. Numerous officers and bank employees also provide technical assistance through participation on finance or budget committees of local entities which provide services to low- or moderate-income persons in the Midland MSA AA. Although this is not a comprehensive list, some of the community development services include:

### Money Smart

CNB employees in the Midland MSA AA have volunteered as instructors for Money Smart classes since 2004. The bank joined with the Business and Economic Development Center (BEDC) of Midland College to develop the Individual Development Account (IDA) program. The clients who enroll must complete the Money Smart course which targets low- and moderate-income individuals.

### VITA

CNB employees received training to prepare tax returns for low- and moderate-income individuals in both the Midland MSA AA and the Ector County MSA AA. Using this training, CNB employees provided guidance to individuals about the availability of the earned income tax credit and the child care credit to enable the individuals to maximize their tax refunds and/or minimize their tax liability.

### Conclusions for Areas Receiving Limited-Scope Reviews

Based on limited-scope reviews, the bank's performance in the Ector County MSA AA and Martin County AA is consistent with the bank's overall "Satisfactory" performance under the Community Development Test. One branch in the Ector County MSA AA is located in a moderate-income CT, and the other branch is located in an upper-income CT. Additionally, the branch in Martin County is located in a distressed middle-income CT. Banking services are consistent with the area receiving a full-scope review with the exception that the Martin County AA branch does not have an ATM. Branch employees are involved in community development services in both Ector County MSA and Martin County AAs.

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

Based upon CNB's overall record within the combined AA, a rating of Satisfactory was assigned for the Community Development Test. The rating was based upon CNB's reasonable responsiveness in the level of community development lending and services and low level of community development investments 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.