



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

June 18, 2012

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 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.

Scope of Examination

Conclusions regarding the bank's lending performance are based on a sample of the bank's primary lending products which include residential mortgage, small business and agriculture loans for the years 2010, 2011 and year-to-date 2012. 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 has one assessment area which consists of Hopkins County and Wood County, and census tract 9503 in Franklin County. This area includes all of the bank's branch locations and automatic teller machine (ATM) services, and received a full scope review of the bank's performance under the Community Reinvestment Act. 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 (CNB), headquartered in Sulphur Springs, Texas, is an intrastate financial institution with assets totaling \$423 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 nine ATMs located at seven branch locations with additional locations in area convenience stores. The bank's offices are all located in the non-metropolitan counties of Hopkins and Wood.

CNB's 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, 2012, the bank's net loans represented 72 percent of total assets. The following chart reflects the distribution of the bank's loan portfolio.

Loan Category	\$ (000)	%
Residential Real Estate Loans	130,707	43.18
Commercial Real Estate Loans	65,985	21.80
Commercial Loans	31,087	10.27
Agriculture Real Estate Loans	23,035	7.61
Agriculture Loans	24,793	8.19
Consumer Loans	27,091	8.95
Total	302,698	100.00%

Our review also included contacts with local business groups in the assessment area. These contacts stated the primary credit needs in the area are small business loans and 1-4 family 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 in general, with no significant residential developments in the area. One contact stated the local financial institutions offer products that help meet all other credit needs and are responsive to community needs and activities.

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 \$34 million representing 8.31 percent of adjusted average assets as of March 31, 2012. The bank's CRA performance was last evaluated as of August 20, 2009, with an overall level of performance rated "Satisfactory."

Description of Assessment Area

The bank's assessment area (AA) consists of Hopkins County and Wood County, and census tract 9503 in Franklin County. There are 17 middle-income census 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 2011 Department of Housing and Urban Development information.

Demographic and Economic Characteristics of AA	
<i>Population</i>	
Number of Families	20,268
Number of Households	27,802
<i>Geographies</i>	
Number of Census Tracts/BNA	17
% 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
2011 HUD-Adjusted MFI	48,600
<i>Economic Indicators</i>	
2011 Unemployment Rate	7.5%
2011 Median Housing Value	\$64,629
% of Households Below Poverty Level	14.62%

Source: 2000 US Census and 2011 HUD updated MFI

The Sulphur Springs AA has a combined population of 71,034. Several other institutions compete in this market with CNB having the largest market share of deposits at 24.30 percent of the area deposits. CNB is retail 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 reasonable and a majority of the bank's loans were 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 reasonable given the bank's size, financial condition and assessment area credit needs. The bank's quarterly average loan-to-deposit ratio was 82.18 percent since the prior CRA examination dated August 20, 2009. The average loan-to-deposit ratio of other banks within the assessment area for the same time period was 66.73 percent.

Institution	Assets (000s) (as of 3/31/12)	Average LTD Ratio
First National Bank, Winnsboro	147,332	89.51
City National Bank, Sulphur Springs	422,907	82.18
Alliance Bank, Sulphur Springs	551,836	72.96
Mineola Community Bank, Mineola	150,311	71.10
Bank Texas, Quitman	219,621	66.23
First National Bank, Mt. Vernon	171,672	53.75
First National Bank, Emory	105,218	46.83
Average Loan to Deposit Ratio		66.73

Lending in Assessment Area

A majority of the bank's lending activity is located inside its assessment area. We reviewed a sample of 20 residential purchase loans, 20 commercial loans and 20 agriculture loans which originated during 2010, 2011, and year-to-date 2012. 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	13	65.00	7	35.00	20	1,409	73.68	503	26.32	1912
Commercial	17	85.00	3	15.00	20	2,556	94.43	151	5.57	2,707
Agricultural	19	95.00	1	5.00	20	1,322	98.91	15	1.09	1,337
Totals	49	81.67	11	18.33	60	5,287	88.78	669	11.22	5,956

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 median cost of housing in the assessment area is \$65 thousand while a low-income person earns less than \$25 thousand based on 2011 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 reasonable. 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.

Borrower Distribution of Residential Real Estate Loans								
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	16.49	3.23	17.43	32.26	24.30	19.35	41.78	45.16

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 exceeds the percentage of businesses with revenues of \$1 million or less.

Borrower Distribution of Loans to Businesses				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	72.70	1.74	25.56	100%
% of Bank Loans in AA by #	80.00	20.00	0.00	100%
% of Bank Loans in AA by \$	95.62	4.38	0.00	100%

Source: Loan sample; Dun and Bradstreet data.

The bank's distribution of loans to small farms is reasonable. The percentage of loans to farms with revenues of \$1 million or less is near to the percentage of farms with revenues of \$1 million or less.

Borrower Distribution of Loans to Farms				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98.23	0.79	0.98	100%
% of Bank Loans in AA by #	95.00	5.00	0.00	100%
% of Bank Loans in AA by \$	55.46	44.54	0.00	100%

Source: Loan sample; 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 performance under the community development test is satisfactory. 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 one loan totaling \$24 thousand which qualified as community development during this evaluation period. The bank is also in the process of funding a second loan to the Nehemiah Foundation which is scheduled to close by September 2012.

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 eight qualified investments totaling \$10 thousand or approximately 0.03 percent of Tier 1 Capital. Investments include donations to local organizations that provide community services.

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 seven branch locations and two convenience stores, 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 community development corporation (CDC) which provides 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 foundation's housing development program. Permanent funding for low income housing will be provided by the three local banks actively involved in the foundation through participations to the CDC.

Additionally, CNB began participating with the Homebuyer Equity Leverage Program (HELP) through the Federal Home Loan Bank of Dallas during this evaluation period. 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

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