



**SMALL BANK**

---

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

---

## **PUBLIC DISCLOSURE**

**May 01, 2007**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The City National Bank of Taylor  
Charter Number 5275**

**212 North Main Street  
Taylor, TX 76574**

**Office of the Comptroller of the Currency  
San Antonio – North Field Office  
10101 Reunion Place Boulevard Suite 402  
San Antonio, TX 78216**

**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 the 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 Taylor’s (CNBT) lending performance meets the standards for satisfactory performance in meeting the known credit needs of its community.

- The bank’s quarterly loan-to-deposit (LTD) ratio is below the average for competing banks at 32%, but is considered reasonable in light of competition and lending opportunities in the assessment area (AA).
- A majority of loans are within the bank’s AA. Approximately 82% of the number and 76% of the dollar volume of loans were to borrowers within the AAs.
- CNBT has demonstrated a strong performance in its willingness to extend loans to individuals of varying incomes and businesses of different sizes.
- The geographic distribution of residential and small business loans reflects a strong dispersion throughout the AA.
- There were no complaints concerning its Community Reinvestment Act (CRA) performance during the evaluation period.

## **DESCRIPTION OF INSTITUTION**

CNBT is a \$220 million bank headquartered in Taylor, approximately 35 miles northeast of Austin, Texas. The bank is wholly-owned by CNB Financial Corporation, Inc., a one-bank holding company. In addition to the main office, the bank has a lending center and drive-through branch in downtown Taylor. Three of the bank’s deposit-taking automated teller machines (ATMs) are located in Taylor. One is also located in nearby Hutto. CNBT is a full-service bank with a focus on providing small business and mortgage loans.

The institution’s primary focus is to promote economic development in its AA through its lending programs and community involvement. As of December 31, 2006, net loans represent 24% of the bank’s total assets. CNBT focuses on commercial and mortgage lending, which respectively account for 40% and 33% of the loan portfolio. The following table reflects the composition of the loan portfolio as of December 31, 2006.

<b>Table 1 – LOAN PORTFOLIO COMPOSITION</b>		
<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Residential Real Estate Loans	17,594	33
Commercial Loans	11,591	22
Commercial Real Estate Loans	9,279	18
Construction & Land Development Loans	4,577	9
Farmland Loans	3,613	7
Agricultural Loans	3,068	6
Consumer Loans	2,929	6
Other	190	0
<b>Total</b>	<b>52,841</b>	<b>100</b>

*Source: Institution Consolidated Reports of Condition as of 12/31/2006*

Full banking services are provided Monday through Friday. CNBT's Internet website provides customers the opportunity to apply for loans, obtain deposit information, initiate transactions, and review account statements. CNB also has a 24-hour telephone access system, which allows customers to obtain account balance information, make loan payments, obtain cash advances to make deposits, transfer funds, and confirm checks that have cleared their account.

## **DESCRIPTION OF ASSESSMENT AREA**

CNBT's AA consists of ten contiguous census tracts (CTs). The CTs are located in eastern Williamson County, which is part of the Austin-Round Rock metropolitan statistical area (MSA). Cities located within the AA include Taylor, Granger, Hutto, and Thrall. There are three moderate-income tracts and no low-income tracts in the AA.

The city of Taylor is centrally located within the AA and has a combined population of approximately 39,000. Primary industries within the AA include retail trade, services, and light manufacturing. Major employers in the AA include ALCOA, Intercraft Industries, Taylor Independent School District, and the City of Taylor. The local economy is stable. The unemployment rate is down to 1.2%, while the Taylor Economic Development Corporation continues efforts to attract new employers to the area.

In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted the Executive Director of the Taylor Economic Development Corporation and the Property Manager of the Taylor Housing Authority during this examination. The contacts were complimentary on the local institutions' performance in meeting community credit needs and stated there are no unmet credit needs.

A review of CNBT's lending practices revealed no evidence of illegal discrimination. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. Based on its financial condition, resources, the local economy, product offerings, and competition, CNBT has the ability to meet the various credit needs in its community. No legal impediments or other factors hinder the bank's ability to provide credit in its AA. CNBT received a "Satisfactory" rating at its previous CRA examination conducted in September of 2002. Since the prior evaluation, there have been no complaints relating to CNBT's performance under the CRA.

Table 2 on the following page reflects demographic information for the AA derived from the 2000 U.S. Census.

<b>Table 2 - DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF ASSESSMENT AREA</b>	
<b>Population</b>	
Number of Families	10,274
Number of Households	13,183
<b>Geographies</b>	
Number of Census Tracts (CTs)	10
Low-Income CTs	0
Moderate-Income CTs	3
Middle-Income CTs	6
Upper-Income CTs	1
<b>Median Family Income (MFI)</b>	
2000 Census MFI	57,497
2006 HUD-Adjusted MFI	69,600
2005 HUD-Adjusted MFI	68,600
2004 HUD-Adjusted MFI	68,600
2003 HUD-Adjusted MFI	66,900
2002 HUD-Adjusted MFI	71,100
<b>Economic Indicators</b>	
Unemployment Rate	1.24%
2006 Median Housing Value	\$96,428
% of Households Below Poverty Level	8.63%

*Source: 2000 Census Data; Department of Housing and Urban Development*

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

Management has demonstrated satisfactory performance in meeting the credit needs of the AA. In making this determination, we utilized internally generated management reports, information obtained under the Home Mortgage Disclosure Act (HMDA), as well as a sample of 30 commercial loans originated in 2004, 2005, and 2006.

The collected data was used to evaluate the institution using five criteria established for small banks. The criteria includes: individual assessments of the level of loans originated within the AA; the average level of total loans as a fraction of total deposits; the reasonableness of loan dispersion to individuals and businesses of different income levels and geographies; and management's response to complaints received. Additionally, we review any evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

### **Loan-to-Deposit Ratio**

The LTD ratio is reasonable, given CNBT's asset size, financial condition, and lending opportunities in the AA. In forming our conclusion, we evaluated CNBT's average loan ratio over the last seventeen (17) fiscal quarters since the prior evaluation. This measure of lending performance is compared against similarly located and structured financial institutions in the area. CNBT's loan ratio ranks last out of three other comparable institutions. The comparable banks' loan ratios of 51%, 34%, and 43% all exceed CNBT's average loan ratio of 32%. The average ratio for the peer group was 43%. CNBT faces strong competition from numerous branches of other banks, finance companies, and credit unions in the Taylor area.

Management is actively looking for lending opportunities consistent with safe and sound banking practices. Please see Table 3 below for a detailed comparative LTD ratio analysis.

<b>Table 3– LOAN TO DEPOSIT RATIO</b>	<b>TOTAL ASSETS</b>	<b>AVERAGE LTD RATIO</b>
First National Bank in Cameron – Cameron, TX	\$176,576	51%
Citizens National Bank – Cameron, TX	\$228,053	34%
First Texas Bank – Georgetown, TX	\$264,501	43%
<b>The City National Bank in Taylor, TX</b>	<b>\$219,566</b>	<b>32%</b>

Source: Institution Consolidated Reports of Condition 12/31/02-12/31/2006

### Lending in Assessment Area

CNBT originates the majority of loans within the AA. We performed an analysis of bank data reported under the HMDA to identify the concentration of lending within the AA. The bank originated 82% of the number and 76% of the dollar volume of its primary loan products within the AA since the prior evaluation. The following Table 4 provides details by product type.

<b>Table 4 – TOTAL LOANS REVIEWED</b>								
<i>Loan Type</i>	<b>IN ASSESSMENT AREA</b>				<b>OUT OF ASSESSMENT AREA</b>			
	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>
Commercial	20	67	1,770	63	10	33	1,054	37
Home Purchase Loans	8	80	281	74	2	20	97	26
Home Refinance Loans	33	94	1,848	95	2	6	94	5
Home Improvement Loans	34	83	535	76	7	17	165	24
<b>Total Reviewed</b>	<b>95</b>	<b>82%</b>	<b>4,434</b>	<b>76%</b>	<b>21</b>	<b>18%</b>	<b>1,410</b>	<b>24%</b>

Source: Bank Records and Data reported in 2004, 2005, and 2006 HMDA Loan Application registers

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

CNB's loan portfolio reflects a strong distribution of residential and consumer loans among individuals of various income levels and a good dispersion to businesses of different sizes. CNBT lends to all applicants, regardless of income category. We focused our analysis on residential real estate and commercial lending performance, given the high concentration of the two products within the loan portfolio. For mortgage loan analysis, we utilized data reported by the bank under the HMDA in years 2004 through 2006. For commercial loan analysis, our sample included twenty commercial loans originated during the same period.

The bank's record of making residential real estate loans to low- and moderate-income borrowers is excellent. According to 2000 U.S. Census data, 40% of the families in the AA are designated either low- or moderate income. Comparatively, the bank originated 46% of the number of consumer loans sampled to low- and moderate-income borrowers in the AA. The bank made a lower-percentage of loans to low- and moderate-income borrowers based on dollar volume. This is reasonable as higher-income individuals inherently qualify for larger residential real estate secured loans. Please see Table 5 on the following page.

<b>Table 5 – BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS</b>								
<b>Borrower Income Level</b>	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
<b>% of AA Households</b>	<b>23</b>		<b>17</b>		<b>20</b>		<b>40</b>	
<b>% of Bank Loans</b>	<b>% of Number</b>	<b>% of Amount</b>						
Home Purchase	38	24	17	10	21	23	25	43
Home Improvement	29	18	19	12	27	32	25	38
Refinance	21	11	20	12	29	40	30	37
<b>Total Bank Loans</b>	<b>27</b>	<b>16</b>	<b>19</b>	<b>12</b>	<b>27</b>	<b>34</b>	<b>27</b>	<b>39</b>

Source: Data reported in 2004, 2005, and 2006 HMDA Loan Application Registers

The bank’s record of lending to small businesses is good. Small businesses are defined as having annual gross revenues of less than \$1 million. According to 2000 US Census data, 94% of AA businesses have annual gross revenues of less than \$1 million. The number of loans to small businesses as a percentage of the total number of AA loans is 85%. This reflects a strong level of lending to small businesses. The percentage of loans to small businesses as a percentage of the total dollar amount is lower at 67%; however, this is the result of a small number of large dollar loans to bigger businesses. Please see Table 6 below.

<b>Table 6 – BORROWER DISTRIBUTION OF LOANS TO SMALL BUSINESSES</b>		
<b>Business Revenues</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>
<b>% of AA Businesses</b>	<b>94%</b>	<b>6%</b>
<b>% of Bank Loans in AA \$</b>	<b>87</b>	<b>13</b>
<b>% of Bank Loans in AA #</b>	<b>85</b>	<b>15</b>

Source: 2000 Census Data; Bank Records

## Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the AA. In forming our conclusion, we placed greater emphasis on commercial and mortgage loans, given the high concentration of these two products in the bank’s loan portfolio. The scope of our analysis included twenty commercial and all mortgage loans originated between 2004 and 2006 within the AA. As there are no low-income CTs in the AA, this analysis is limited to the bank’s performance in lending to moderate-income areas.

CNBT’s level of residential real estate lending in the moderate-income CTs is strong when compared to the percentage of owner-occupied properties in those areas. Our sample indicates the bank originated 29% of residential real estate loans to moderate-income CTs. Census data indicates only 21% of owner occupied units in the AA are located in moderate-income CTs. Analysis of the level of residential real estate loans as a percentage of the total dollar amount supports this conclusion. Please see Table 7 on the following page.

<b>Table 7 – GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS</b>								
<b>Census Tract Income Level</b>	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
<b>% of AA Owner Occupied</b>	<b>0</b>		<b>21</b>		<b>65</b>		<b>14</b>	
<b>% of Bank Loans</b>	<b>% of Number</b>	<b>% of Amount</b>						
Home Purchase	0	0	26	23	74	77	0	0
Home Improvement	0	0	33	27	66	72	1	1
Refinance	0	0	26	14	73	85	1	1
<b>Total Bank Loans</b>	<b>0</b>	<b>0</b>	<b>29</b>	<b>19</b>	<b>70</b>	<b>80</b>	<b>1</b>	<b>1</b>

Source: Data reported in 2004 and 2005 HMDA Loan Application Registers

CNBT’s level of commercial lending in moderate-income census tracts is strong. Our sample indicated 65% of the number of bank-originated small business loans was to borrowers located in moderate-income tracts. This compares very favorably to census data, which shows only 19% of AA businesses are located in those areas. The level of loans to small businesses as a percentage of the total dollar amount supports this conclusion. Please see Table 8 below.

<b>Table 8 – GEOGRAPHIC DISTRIBUTION OF LOANS TO SMALL BUSINESSES</b>								
<b>Census Tract Income Level</b>	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
<b>% of AA Businesses</b>	<b>0</b>		<b>19</b>		<b>62</b>		<b>19</b>	
<b>% of Bank Loans</b>	<b>% of Number</b>	<b>% of Amount</b>						
<b>Commercial</b>	<b>0</b>	<b>0</b>	<b>65</b>	<b>84</b>	<b>30</b>	<b>15</b>	<b>5</b>	<b>1</b>

Source: 2000 Census Data; Bank Records

## Responses to Complaints

The City National Bank of Taylor has not received any complaints or public comments regarding its CRA performance during this 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.