



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 23, 2012

COMMUNITY REINVESTMENT ACT (CRA) PERFORMANCE EVALUATION

The City National Bank of Colorado City
Charter Number 5276

228 Elm Street
Colorado City, TX 79512-0000

Office of the Comptroller of the Currency

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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 City National Bank of Colorado City (CNB) has a satisfactory record of meeting community credit needs. The major factors that support this rating include:

- The bank's loan-to-deposit ratio is reasonable when compared to banks of similar size and characteristics in or near the assessment area (AA). The loan-to-deposit ratio averaged 37.52 percent during the evaluation period.
- A substantial majority of CNB's loans were originated within the bank's AA. Based on a sample of 57 loans, 87.72 percent of the number of loans and 92.67 percent of the dollar volume of loans were to borrowers within the AA.
- CNB has an excellent penetration of consumer and residential loans to individuals of different income (including low- and moderate-income) levels.

SCOPE OF EXAMINATION

This Performance Evaluation assesses CNB's record of meeting the credit needs of the community in which it operates. We evaluated CNB under the small bank performance criterion, which includes five performance criteria: the loan-to-deposit ratio, lending within the AA, lending to borrowers of different incomes, geographic distribution of loans, and responses to CRA-related complaints. The loan sample consisted of 28 residential real estate loans and 29 consumer loans originated between December 31, 2007 and September 30, 2011.

DESCRIPTION OF INSTITUTION

The City National Bank (CNB) of Colorado City is a community bank located in Colorado City, Texas, approximately 60 miles west of Abilene. CNB is an intra-state bank with one banking office and a drive-up facility. The bank also maintains two automated teller machines (ATMs) in Colorado City. The bank is wholly owned by TM&S Bancshares, which is owned by City National Bancshares Inc. (CNBI). CNBI reported total assets of \$107 million as of September 30, 2011.

The bank offers a full range of commercial and consumer banking products and related financial products. The bank provides access to banking services through its website at www.cnbccity.com. Services include account balance inquiries, funds transfer activities, and bill pay services.

As of September 30, 2011, net loans and leases comprised 31.4 percent of total assets. The bank's primary loan products include residential real estate (1-4 Family), consumer, political subdivisions, and agricultural loans. The following table depicts CNB's loan portfolio composition.

Loan Portfolio Composition as of September 30, 2011		
Loan Category	\$ (000)	%
Residential Real Estate	7,411	21.75
Consumer	6,949	20.40
States and Political Subdivisions	7,145	20.97
Agriculture	4,483	13.16
Commercial	4,216	12.37
Agriculture Real Estate	2,043	6.00
Commercial Real Estate	1,803	5.29
Other	21	0.06
TOTAL	34,071	100.00%

Source: September 30, 2011 Report of Condition

Management and the Board's primary focus is to serve the real estate, consumer, agricultural, and commercial customers in Mitchell and Nolan Counties. The bank meets customer needs by providing traditional loan and deposit products. Bank lobby and drive-through services are provided Monday through Friday with drive-through services also provided on Saturday. Based on CNB's financial condition, local economy, product offerings, and competition, the bank has the ability to meet the various credit needs in its community. CNB was rated "Satisfactory" at the previous CRA examination on January 29, 2007. CNB has no legal or financial circumstances that could impede its ability to help meet the credit needs in its AA. 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

CNB has designated Mitchell and Nolan Counties as its AA. Both counties are located along the Interstate 20 corridor of the high plains of West Texas. Colorado City is the largest city and the county seat of Mitchell County. Nolan County is the adjacent county located directly east of Mitchell. Sweetwater is the largest city and the county seat of Nolan County. Other principal cities located within the AA include Loraine, Westbrook, and Roscoe. Specific demographic data and economic data for Mitchell and Nolan Counties are listed below.

Demographic and Economic Characteristics of AA	
Population	
Number of Families	6,331
Number of Households	9,001
Geographies	
Number of Census Tracts/BNA	8
% Low Income Census Tracts/BNA	0.00
% Moderate Income Census Tracts/BNA	37.50%
% Middle-Income Census Tracts/BNA	37.50%
% Upper-Income Census Tracts/BNA	25.00%
Median Family Income (MFI)	
2000 MFI for AA	36,380
2011 HUD-Adjusted MFI	48,600
Economic Indicators	
Unemployment Rate	2.76%
2011 Median Housing Value	\$34,624
% of Households Below Poverty Level	21.65%

Source: 2000 Census data and HUD updated income data

The AA consists of two whole geographies and does not arbitrarily exclude low- and moderate-income geographies. The AA is comprised of eight census tracts with three census tracts in Mitchell County and five census tracts in Nolan County. Three census tracts are designated as moderate- income, three as middle-income, and two as upper-income. The 2000 Census data reflects that 21.65 percent of the households in the AA are below the poverty level. Federal agencies have designated both middle-income census tracts in Mitchell County as distressed areas due to the poverty level.

Based on 2000 Census data, the AA has a total population of 25,500. There are 11,280 housing units in the AA, of which 55.97 percent are owner-occupied; 23.88 percent are renter-occupied; and 20.15 percent are vacant. Approximately 33.91 percent of families in the AA are considered moderate-income. Middle-income families approximate 38.94 percent, and upper-income families make up the remaining 27.15 percent.

There are several financial institutions in the AA. In addition to CNB, there are three other national banks, a state bank, and a number of credit unions. An office of the Farm Service Agency is also located in Colorado City. According to the June 30, 2011 FDIC Deposit Market Share Report for Mitchell and Nolan County, CNB's deposit market share is 21.10 percent.

The economy is somewhat diversified due to the number of agricultural and small business operations in the AA. The largest non-agricultural employers within the AA include the local school district, the prison system, oil-and-gas related industries, and wind energy production.

An individual in the community was interviewed for the purpose of determining a community profile, identifying opportunities for participation by local financial institutions, and determining the performance of local financial institutions. The contact stated that local banks are responsive in meeting the needs of the local community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

To evaluate CNB's lending performance, we reviewed a random sample of 57 loans. We sampled major loan products offered by the bank including 29 consumer loans and 28 residential real estate loans. Based on the analysis and consistent with available resources and capabilities, CNB is meeting the credit needs of the AA in a satisfactory manner.

Loan-to-Deposit (LTD) Ratio

CNB's LTD ratio is reasonable given the bank's size, financial condition, local competition, and AA credit needs. This determination is based on the quarterly average LTD ratio from December 31, 2007 through September 30, 2011 of 37.52 percent. During the evaluation period, CNB's LTD ratio ranged from a low of 33.51 percent to a high of 42.45 percent. The average LTD ratio of similarly situated banks within the AA for the same period was 35.07 percent. The average LTD ratio is reasonable given the credit needs of the community and local competition.

The quarterly average LTD ratio for each similarly situated bank in or contiguous to the AA is listed below. Please note that no ranking is intended or implied.

Loan-to-Deposit Ratios		
Institution	Total Assets \$ (000's) (As of 9/30/11)	Average Loan-to-Deposit Ratio
The City National Bank of Colorado City	107,368	37.52%
First National Bank of Colorado City	41,481	27.82%
The Roscoe State Bank	139,730	38.57%
Texas National Bank - Sweetwater	93,228	38.81%

Source: Institution Reports of Condition from March 2007 to September 2011

Lending in Assessment Area

A substantial majority of the bank's loans were made within its AA. In order to assess the performance for this criterion, we reviewed 29 consumer loans and 28 residential real estate loans that were originated between January 2007 and September 2011. The breakdown by loan category is illustrated in the following table.

Lending in AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	26	92.86	2	7.14	100.00	965,815.41	94.52	55,981.59	5.48	100.00
Consumer Loans	24	82.75	5	17.25	100.00	108,866.11	78.98	28,971.83	21.02	100.00
Total	50	87.72	7	12.28	100.00	1,074,681.52	92.67	84,953.42	7.33	100.00

Source: Sample of loans

Lending to Borrowers of Different Incomes

CNB's loan portfolio reflects an excellent distribution among individuals of various income levels (including low- and moderate-income) within its AA. To perform our analysis, we reviewed income information of 24 consumer loans and 26 residential real estate loans in the AA.

Consumer Loans – Our analysis reflects an excellent penetration of consumer loans to low- and moderate-income households in the AA. Based on Census information, 47.71 percent of households in the AA are low and moderate income. Our review determined that 75.00 percent of consumer loans were made to low- and moderate-income households. The distribution of consumer loans exceeds the income characteristics of the AA for low- and moderate-income households.

Borrower Distribution of Consumer Loans in 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	30.09	45.83	17.62	29.17	17.99	12.50	34.31	12.50

Source: Loan sample; U.S. Census data

Residential Real Estate Loans – CNB’s distribution of residential real estate loans to low- and moderate-income borrowers is near the percentage of low- to moderate-income borrowers in the AA. Approximately 45.63 percent of families in the AA are low to moderate income. CNB’s percentage of residential real estate loans to low- to moderate-income level borrowers was 42.31 percent based on our sample. The HUD-adjusted median family income for the AA is \$48,600. Low- income families in the AA make less than \$24,300 per year. See the table below for borrower distribution.

Borrower Distribution of Residential Real Estate Loans in AA								
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 RE	27.23	7.69	18.40	34.62	19.52	26.92	34.84	30.77

Source: Loan sample; U.S. Census data

Geographic Distribution of Loans

CNB’s geographic loan distribution does not meet the standard for performance to moderate-income households. Performance for residential real estate and consumer lending reflects a poor dispersion compared to the percentage of owner-occupied housing in moderate-income census tracts in the AA. However, this is mitigated by the large number of loans in middle-income census tracts designated as distressed due to the poverty level. There are no low-income census tracts in the AA. Given the bank’s competition, strategic plan, proximity, and large number of loans in distressed middle-income areas, the geographic distribution of loans does not negatively impact the bank’s overall satisfactory CRA record. Our analysis included 26 residential real estate loans and 24 consumer loans.

Residential Real Estate Loans – The geographic distribution of residential real estate in the moderate-income census tract is significantly below the percentage of owner-occupied housing in the AA. There are no low-income census tracts. The only populated moderate-income census tract in the bank’s AA is in Nolan County, where residential real estate loans are serviced by financial institutions in Sweetwater, TX. Competition for residential real estate loans in Sweetwater is very high. Colorado City is located in a middle-income census tract. Our review

showed that 100 percent of residential real estate loans were in middle-income census tracts including tracts designated as distressed. The following table summarizes the distribution of residential real estate loans originated in the AA.

Geographic Distribution of Residential Real Estate Loans in AA								
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
Residential RE	0.00	0.00	30.06	0.00	42.01	100.00	27.93	0.00

Source: Loan Sample; U.S. Census data

Consumer Loans – The geographic distribution of consumer loans in the AA is lower than the percentage of moderate-income households in the AA. In the AA, 15.82 percent of households are located in moderate-income census tracts, and our sample reflected that 4.17 percent of consumer loans were located in moderate-income census tracts. The vast majority of consumer loans are in middle-income geographies. As previously mentioned, the middle-income census tracts have been designated as distressed due to the poverty level. This mitigates the low number of loans to moderate-income households. The following table summarizes the distribution of consumer loans by census tract income level.

Geographic Distribution of Consumer Loans in AA								
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	0.00	0.00	15.82	4.17	84.18	95.83	0.00	0.00

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

Responses to Complaints

No complaints relating to CRA performance have been received by CNB during the evaluation period, and this has a neutral impact on CNB’s overall performance. CNB has systems in place to ensure that complaints are addressed in a timely manner.

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.