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Comptroller of the Currency

**SMALL**

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Administrator of National Banks

BANK

## **PUBLIC DISCLOSURE**

June 14, 1999

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**City National Bank  
Charter Number 16910**

**1006 Stone Road  
Kilgore, Texas 75662**

**Office of the Comptroller of the Currency  
Southwestern District  
1600 Lincoln Plaza  
500 North Akard  
Dallas, Texas 75201-3394**

**NOTE: 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.**



## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **City National Bank** prepared by **Office of the Comptroller of the Currency** the institution's supervisory agency, as of June 14, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

**INSTITUTION'S CRA RATING:** This institution is rated Satisfactory.

City National Bank has a satisfactory record of meeting community credit needs. This satisfactory rating is based on the following:

- < The bank's loan-to-deposit ratio is more than reasonable when compared to other area banks.
- < A substantial majority of the bank's loans are extended within its assessment area.
- < Credit activity is reasonably distributed to borrowers of different income levels.
- < The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- < The bank has taken appropriate action in response to complaints about its performance in meeting the credit needs in its assessment area.

**DESCRIPTION OF INSTITUTION:**

City National Bank is a \$122 million bank located at 1006 Stone Road in Kilgore, Texas. The bank is wholly owned by Century Capital Financial, Inc., a one bank holding company. In addition to the main office, the bank has a branch located at 911 N. W. Loop 281 in Longview, Texas, along with a branch at 5199 ½ U. S. 259N in Longview, Texas. The bank has automated teller machines (ATMs) located at all three sites. Loan products offered include real estate loans, commercial loans, and consumer loans. As of March 31, 1999, loans totaled \$76 million and represented 60% of the bank's total assets. Loans are distributed as follows: \$49 million or 65% were commercial and commercial real estate, \$19 million or 25% were residential mortgages, \$7 million or 9% were consumer loans, and \$396 thousand or 1% were agricultural loans. There are no legal impediments or other factors which inhibit the bank's ability to meet the credit needs of the community. The bank was rated satisfactory during the prior CRA Examination dated June 10, 1996.

**DESCRIPTION OF THE ASSESSMENT AREA:**

The Board has designated block numbering area (BNA) 9503.98 in Rusk County along with census tracts 1 through 15, 101, 103, 104, 106, and 107 in Gregg County as its assessment area. The Rusk County BNA is not part of a Metropolitan Statistical Area (MSA). The Gregg County census tracts are part of the Longview--Marshall MSA. All of the tracts are contiguous. BNA 9503.98, along with census tracts 104, 106, and 107 are serviced by the Kilgore Office, while census tracts 1 through 15, 101, and 103 are serviced by the Longview Offices. The area includes one low income tract, six moderate income tracts, seven middle income tracts, and eight upper income tracts. The assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude low and moderate income geographies.

The assessment area included in the Longview--Marshall MSA has a total population of 93,897. Only 0.11% of all families live in a low income census tract, 21.72% live in moderate income census tracts, 39.67% live in middle income census tracts, and 38.50% live in upper income census tracts. The distribution of families by income level regardless of census tract location, consists of the following: 19.56% are low income, 15.59% are moderate income, 19.67% are middle income, and 45.18% are upper income. According to 1998 Department of Housing and Urban Development (HUD) information, the median family income for this area is \$39,900. The median housing value is \$55,467. The Rusk County BNA (9503.98) has a population of 5,142. This is an upper income tract with 1,398 total families. Approximately 14.16% of the families are low income, 14.09% are moderate income, 20.17% are middle income, and

51.58% are upper income. According to 1998 HUD information, the median family income for this area is \$33,900. The median housing value for the Rusk County BNA is \$44,400. Major employers in the Longview/Kilgore area are Texas Eastman Co., Good Shepherd Medical Center, LeTourneau, Inc., Trinity Industries, SITEL, Fleetwood Travel Trailer, Longview Regional Medical Center, Neiman Marcus Distribution Center, Vertex, Inc., and Mansfield Plumbing. Competition within the assessment area is strong with one bank, two credit unions, and a branch of another bank located in Kilgore. Additionally, there are 20 banks and bank branches and 11 credit unions in the Longview area. The local economy is considered stable with an unemployment rate of 7.1% for Longview (1999) and 5.8% for Kilgore (1998).

Contacts with officials from local governments revealed the primary community credit needs for the assessment area are affordable home loans, home rehabilitation loans, and small business loans.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

**LOAN TO DEPOSIT RATIO:**

The loan-to-deposit ratio of City National Bank is more than reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly average loan-to-deposit ratio was 73.04% since the prior CRA Examination in June of 1996. The average loan-to-deposit ratio of banks within the assessment area and in close proximity to the assessment area, for the same time period, was 61.33%. The quarterly average loan-to-deposit ratio of these banks ranged from a low of 29.86% to a high of 79.88%.

**LENDING IN ASSESSMENT AREA:**

A substantial majority of the bank's lending activity is located within its assessment area. We reviewed a sample of 394 residential mortgages and 60 commercial loans which have originated since January 1997. This sample reflected that approximately 72.91% of the number of loans and 70.66% of the dollar amount of loans in our sample were extended within the bank's assessment area. The breakdown by loan category is illustrated in the following tables.

<b>Residential Mortgages</b>	<b>Number</b>	<b>Percent</b>	<b>Dollar Amt. (000's)</b>	<b>Percent</b>
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Inside Assessment Area	287	72.84%	22,715	72.78%
Outside Assessment Area	107	27.16%	8,494	27.22%

<b>Business Loans</b>	<b>Number</b>	<b>Percent</b>	<b>Dollar Amt. (000's)</b>	<b>Percent</b>
Inside Assessment Area	44	73.33%	8,190	65.36%
Outside Assessment Area	16	16.00%	4,341	34.64%

**LENDING TO BORROWERS OF DIFFERENT INCOME AND TO BUSINESSES OF DIFFERENT SIZES:**

The distribution of loans within the assessment area reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes. City National Bank's primary product lines are commercial loans, commercial real estate loans, and home purchase loans. The bank offers a variety of mortgage products including Federal Housing Authority (FHA) and Veteran Administration (VA) loans which are sold in the secondary market. The bank is also an approved Small Business Administration (SBA) lender. The distribution of home purchase loans generally approximates the income characteristics of the assessment area. While loans to low income families are at a low level compared to the demographics of the assessment area, this is primarily due to the limited number of applications received from low income borrowers. During 1997, the bank received 4 applications for home purchases and home improvement loans which were from low income borrowers. This represents less than 2% of the total applications received. Of the 4 applications received, 2 were approved and 2 were denied. During 1998, the bank received 11 home loan applications from low income borrowers which represents only 3% of total applications received. Nine of the applications were approved and two were denied. Management has held several seminars for home loan applicants and has contacted various community leaders throughout the assessment area to communicate the products offered by the bank and the bank's willingness to lend to all qualified applicants. In addition, the bank participates in several block grant programs which are designed to specifically assist low and moderate income individuals/families with down payment and closing costs on home loans. The table on the following page details the results of our analysis.

<b>Lending to Borrowers of Different Income Levels Home Purchase Loans</b>			
<b>Borrower Income Category</b>	<b># of Loans</b>	<b>Percentage</b>	<b>% of Families within each Income Category</b>
Low	12	4.18%	19.28%
Moderate	37	12.89%	15.52%
Middle	73	25.44%	19.70%
Upper	165	57.49%	45.50%
<b>Total</b>	<b>287</b>	<b>100.00%</b>	<b>100.00%</b>

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on U. S. Census information, there are 3,298 businesses in the assessment area with revenues less than \$1 million. This number represents 73% of all businesses within the assessment area. Based on our review, 66% of the business loans we sampled which were originated within the bank's assessment area were to small businesses with gross annual revenues of less than \$1 million. Refer to the following table for details.

<b>Distribution of Small Business Loan Originations Sample Within the Assessment Area by Business Revenues</b>		
<b>Business Annual Revenues</b>	<b># Loans</b>	<b>Percentage</b>
Less than \$100,000	9	20%
\$100,000 to \$500,000	15	34%
\$500,000 to \$1,000,000	5	12%
Subtotal Small Businesses	29	66%
Over \$1,000,000	15	34%
<b>Totals</b>	<b>44</b>	<b>100%</b>
Distribution of Businesses in the Assessment Area by Annual Revenues of the Business:		< 1 Million 73%
		> 1 Million 8%
		Unknown 19%

Source: Dun & Bradstreet Business Demographic Data

## **GEOGRAPHIC DISTRIBUTION OF LOANS:**

The distribution of home purchase loans reflects a reasonable penetration throughout the assessment area given the bank's overall business strategy, locations, and the availability of owner occupied housing. Although no mortgage loans were extended in the low income census tract, City National Bank has extended commercial loans within this tract. Additionally, the bank's internal reports for 1997 and 1998 reflect consumer loans were also originated in this low income census tract. Demographic data shows that this area only has 28 families within its boundaries. Furthermore, only 22 of these families own the home in which they occupy. The majority of the area is commercial buildings and rental property. Additionally, while the lending activity in the moderate income tracts is low compared to the number of owner occupied housing units located in these geographies, these tracts are located south of highway 80 and are more assessable to banks located in the downtown area. Moreover, the percentage of households below poverty in low and moderate income tracts is 48 percent and 30 percent, compared to only 15 percent of households in middle income tracts and 9 percent in upper income tracts. These factors negatively impact opportunities to originate 1-4 Family mortgages in the low and moderate income areas. Refer to the following table for details on the geographic distribution of home purchase loans.

<b>Geographic Distribution of Home Purchase Loans</b>						
Geography Designation	Number of Owner Occupied Housing Units within each Geography Type	Percentage of Owner Occupied Housing Units within each Geography Type	Distribution of Home Purchase Loans by Geography Type			
			#	%	\$	%
Low Income	22	.09%	0	0.00%	0	0.00%
Moderate Income	4,643	19.56%	19	6.62%	845	3.72%
Middle Income	8,658	36.48%	97	33.80%	6,579	28.96%
Upper Income	10,411	43.87%	171	59.58%	15,291	67.32%
<b>Total</b>	<b>23,734</b>	<b>100.00%</b>	<b>287</b>	<b>100.00%</b>	<b>22,715</b>	<b>100.00%</b>

The geographic distribution of business loans is reasonable based on the bank's locations and when compared to the percentage of businesses within each geography type. While the percentage of business loans originated in moderate income tracts is low compared to the percentage of businesses within that geography type, both the low and moderate income tracts are located south of highway 80 and are more assessable to banks located in the downtown area. This fact limits lending opportunities in these tracts. Refer to the following table for specific details.

<b>Geographic Distribution of Business Loans</b>						
Geography Designation	Number of Businesses withing each Geography Type	Percentage of Businesses within each Geography Type	Distribution of Business Loans by Geography Designation			
			#	%	\$	%
Low Income	312	6.90%	3	6.82%	69	0.84%
Moderate Income	1,233	27.28%	4	9.09%	306	3.74%
Middle Income	1,678	37.12%	16	36.36%	5,504	67.20%
Upper Income	1,297	28.69%	21	47.73%	2,311	28.22%
<b>Total</b>	<b>4,520</b>	<b>100.00%</b>	<b>44</b>	<b>100.00%</b>	<b>8,190</b>	<b>100.00%</b>

**RESPONSE TO COMPLAINTS:**

City National Bank has addressed all CRA related complaints in a satisfactory manner. The bank received one complaint related to their community reinvestment activities since the prior examination. The complaint was submitted by a community group in Longview and alleged that City National Bank did not satisfactorily meet the lending needs of consumers and businesses within low and moderate income census tracts. As a result of this complaint, the bank developed a CRA Plan that specifically detailed actions the bank would take to meet the credit needs of residents and businesses located in low and moderate income census tracts within the bank's assessment area. See the *Additional Information* section for details of the specific actions City National Bank has taken.

A Fair Lending Examination was performed in conjunction with this examination. We sampled Federal Housing Authority (FHA) mortgage approvals and denials to test for discrimination on the basis of race. Based on the samples reviewed, no discriminatory

practices were noted. The bank is in compliance with the substantive provisions of antidiscrimination laws and regulations.

**ADDITIONAL INFORMATION:**

Following are the actions taken by City National Bank to address the CRA complaint detailed above.

**East Texas Housing Corporation Series 1997 Revenue Bond Program.** This program was designed for first time home buyers and provides assistance to low and moderate income individuals and also provides assistance for borrowers buying properties in a designated low or moderate income target area. Standard FHA/VA underwriting guidelines are used and borrowers are given a fixed 6.8% interest rate for 28 years. The bank is required to fund 2 1/2% of the loan amount to be used for the down payment and closing costs assistance. City National Bank purchased funds through the bond program to make funds available for first time home buyers at a below market rate. Total loans of \$268,315 were made under this program during 1998.

**Bond 54.** City National Bank purchased funds in this program to assist low and moderate income families with housing needs. This bond program provides assistance to low and moderate income families to purchase homes. A fixed interest rate of 5.85% was offered which was below market rates. Loans totaling \$242,112 have been made under this program during 1999.

**City of Longview Down payment and Closing Cost Assistance.** City National Bank regularly participates in this program which is funded from community development block grants through the City of Longview. This program provides assistance to low and moderate income borrowers for costs associated with purchasing a home. The bank funded five loans which received this assistance in 1998 and 1999.

**City of Kilgore Down payment and Closing Cost Assistance.** This program is funded through community development block grants through the City of Kilgore. Funds are provided to low and moderate income borrowers from the City of Kilgore to assist in the costs associated with home purchases. The bank funded four loans which received this assistance in 1998 and 1999.

**Federal Home Loan Bank of Dallas Grant.** City National Bank received this grant which is designed to provide assistance with closing costs for home purchases to borrowers that earn at or below 50% of the Median Income guidelines. Properties have to be located within the corporate city limits of either Longview or Kilgore. The down

payment and closing cost assistance provided by the City of Longview and City of Kilgore can also be used in conjunction with this program. The bank has funded one loan under this program, and there are currently funds available for qualified borrowers.

**Customer referrals.** City National Bank has also referred customers who could not qualify for any of its mortgage products to mortgage companies which underwrite home loans for individuals with negative credit histories or other negative information. To date, six loans which were referred by City National Bank to these mortgage companies have been approved.

**Credit Counseling.** City National Bank has participated in several credit counseling seminars with the City of Longview, credit bureaus, and other lenders to educate and assist consumers in applying for credit. The bank has also held Home Ownership seminars in Kilgore and Longview.

**Small Business Administration (SBA) approved lender.** City National Bank became an approved Regular Small Business Administration (SBA) lender in order to meet the credit needs of area businesses. The bank has made 10 SBA loans during 1998 and 1999 totaling \$700,000. The bank also participates with the Small Business Development Center in offering classes to business owners or potential business owners on a variety of topics including banking and how to obtain a SBA loan. City National Bank also offers scholarships to allow potential business owners to attend these classes at no charge.