



PUBLIC DISCLOSURE

May 15, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The City National Bank of Colorado City
Charter Number 5276

228 Elm
Colorado City, TX 79512

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 City National Bank of Colorado City (CNB) has a reasonable quarterly average loan-to-deposit ratio of 37.93 percent during the evaluation period.
- CNB originated a substantial majority of loans by number (93 percent) and dollar volume (85 percent) within the assessment area (AA).
- CNB's loan portfolio reflects a reasonable penetration among individuals of various income levels and an excellent penetration among businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion given the bank's performance context, business strategy, and location.

SCOPE OF EXAMINATION

This performance evaluation assesses CNB's record of meeting the credit needs of the community in which it operates. We evaluated the bank under the small bank performance standards, which includes five performance criteria: the loan-to-deposit ratio, lending within the AA, lending to borrowers of different incomes and businesses of different sizes, geographic distribution of loans, and responses to CRA-related complaints.

To evaluate CNB's lending performance, a random sample of loans was selected based on the bank's primary loan products. Primary loan products are those that have been originated at the highest percentages by number and/or dollar volume of loans. During this evaluation period, primary products consisted of commercial and consumer loans. To assess performance, we reviewed 22 commercial loans and 21 consumer loans originated from 2015, 2016, and year-to-date 2017.

DESCRIPTION OF INSTITUTION

CNB is a \$122 million community bank located in Colorado City, Texas, approximately 70 miles west of Abilene, Texas along Interstate 20. CNB is an intrastate bank with one banking office and a drive-up facility. CNB maintains two automated teller machines (ATMs) in Colorado City. The bank is wholly owned by City National Bancshares Inc., a single-bank holding company with total consolidated assets of \$122 million.

The bank's business strategy is to serve the real estate, consumer, agricultural, and commercial customers in Mitchell and Nolan Counties. The bank offers a full range of commercial and consumer banking products and trust services. CNB also offers online banking at www.cnbccity.com.

As of March 31, 2017, net loans and leases comprised approximately 40 percent of total assets. The bank's primary loan products include commercial loans (by dollar volume of loans) and consumer loans (by number of loans). The following table depicts CNB's loan portfolio composition.

Loan Portfolio Composition as of March 31, 2017				
Loan type	\$ (000)	%	#	% of #
Commercial	12,856	26	115	9
Consumer	8,868	18	987	76
Agriculture	12,568	25	103	8
Residential Real Estate	11,523	23	86	7
Other	3,724	8	5	0
TOTAL	49,539	100	1,296	100

Source: March 31, 2017 Call Report and Bank Reports

Customer needs are met 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. CNB does not have a minimum loan amount for consumer loans, allowing them to make many small volume loans to meet customer needs. The bank has the ability to meet the various credit needs in its community based on its financial condition, the local economy, product offerings, and competition.

The bank received a Satisfactory rating at its January 23, 2012 CRA evaluation. CNB has no legal or financial circumstances that would impede the bank's ability to help meet community credit needs.

DESCRIPTION OF ASSESSMENT AREA

CNB has established one AA that meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas. The AA includes Mitchell and Nolan Counties, which are contiguous counties located along Interstate 20 in 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 County. 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 the AA is listed below.

Demographic and Economic Characteristics of AA	
Population	
Number of Families	5,861
Number of Households	8,547
Geographies	
Number of Census Tracts/BNA	7
% Low Income Census Tracts/BNA	0.00
% Moderate Income Census Tracts/BNA	14.29%
% Middle-Income Census Tracts/BNA	57.14%
% Upper-Income Census Tracts/BNA	28.57%
Median Family Income (MFI)	
2010 MFI for AA	\$47,817
2016 HUD-Adjusted MFI	\$52,400
Economic Indicators	
Unemployment Rate	6.07%
2016 Median Housing Value	\$55,283
% of Households Below Poverty Level	17.32%

Source: 2010 Census data and HUD updated income data

The AA is comprised of seven census tracts with two census tracts in Mitchell County and five census tracts in Nolan County. One census tract is designated as moderate-income, four as middle-income, and two as upper-income. Federal agencies have designated all census tracts within Mitchell County as distressed areas due to the poverty level. Local economic conditions are stable, although somewhat depressed. About 18 percent of households are below the poverty level. The unemployment rate is 6.1 percent, which is above the Texas and United States rates of 5.0 percent and 4.3 percent, respectively. The local economy is based primarily on agriculture, small business operations, and oil and gas related activities. The largest non-agricultural employers within the AA include the local school districts and oil and gas related companies. The local prison system is a large employer; however, it is scheduled to close by year-end 2017. Two current projects in the AA, a natural gas power plant and a water desalination plant, will bring significant new employment opportunities during the construction phase while also adding roughly \$100 million in additional tax revenue to Mitchell County.

Based on 2010 Census data, the assessment area has a total population of 24,619. There are 11,247 housing units within the AA, of which 54.10 percent are owner-occupied, 21.89 percent are renter-occupied, and 24.01 percent are vacant. Approximately 18.56 percent of households in the AA are considered moderate-income. Middle-income families are approximately 53.42 percent, and upper-income families make up the remaining 28.02 percent.

Competition is strong for both deposits and loans. There are five other financial institutions in the AA. In addition to CNB, there is one other national bank, and three state banks. The June 30, 2016 FDIC Deposit Market Share Report shows that CNB ranks second in market share with 22.25 percent.

We contacted a local organization to obtain a community profile and identify opportunities for community development participation by local institutions. The contact believes that local financial institutions are very responsive in meeting the needs of the local community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

CNB's loan-to-deposit ratio (LTD) is reasonable given the bank's size, financial condition, local competition, and AA credit needs. This determination is based on the bank's quarterly average net LTD ratio from December 31, 2011 through December 31, 2016 of 37.93 percent. During the evaluation period, the LTD ratio ranged from a low of 31.88 percent to a high of 45.66 percent. The average LTD ratio of similarly situated banks in or adjacent the AA for the same period was 29.32 percent.

Loan-to-Deposit Ratios		
Institution	Total Assets \$ (000's) (As of 12/31/16)	Average Loan-to-Deposit Ratio
The City National Bank of Colorado City	121,344	37.93%
Texas National Bank- Sweetwater	128,396	26.24%
The First National Bank of Sterling City	166,886	22.24%
The Roscoe State Bank	145,970	39.49%

Source: Institution Reports of Condition from December 2011 to December 2016

Lending in Assessment Area

A substantial majority of CNB's loans, 93 percent by number and 85 percent by dollar amount, were extended to borrowers who live or operate their businesses inside the AA. The breakdown by loan category is illustrated in the following table.

Lending in AA										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	20	90.91	2	9.09	100.00	1,043	83.10	212	16.90	100.00
Consumer	20	95.24	1	4.76	100.00	162	98.16	3	1.84	100.00
Totals	40	93.02	3	6.98	100.00	1,205	84.85	215	15.15	100.00

Source: Sample of loans.

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

CNB's loan portfolio reflects an overall reasonable penetration among individuals of various income levels and an excellent penetration among businesses of various sizes within the AA. To perform our analysis, we reviewed income information for 20 consumer loans and 20 commercial loans extended in the AA during 2015, 2016, and year-to-date 2017.

The percentage of CNB's consumer loan originations exceeds the ratio of low-income households and is slightly below the ratio of moderate-income households in the AA. CNB originated 30 percent of consumer loans by number to low-income households and 15 percent to moderate-income households, compared to the AA demographics of 26 percent and 17 percent, respectively.

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	26.36	30.00	17.20	15.00	19.07	20.00	37.37	35.00

Source: 2010 U.S. Census data; Loan Sample

The percentage of CNB’s commercial loans originated by both number and volume is excellent compared to AA businesses with gross annual revenues less than or equal to \$1 million. Ninety percent of sampled loans by number and 80 percent by dollar volume were made to businesses with less than or equal to \$1 million in gross annual revenues. Demographic information shows that 76 percent of AA businesses reported revenues less than or equal to \$1 million.

Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	76.19	4.84	18.97	100%
% of Bank Loans in AA by #	90.00	10.00	0	100%
% of Bank Loans in AA by \$	79.55	20.45	0	100%

Source: 2016 Dunn and Bradstreet data; Loan Sample

Geographic Distribution of Loans

CNB’s geographic distribution reflects a reasonable dispersion given the bank’s performance context, business strategy, and location. To perform our analysis, we reviewed income information for 20 consumer loans and 20 commercial loans extended in the AA during 2015, 2016, and year-to-date 2017.

The percentage of CNB consumer loans originated in moderate-income tracts by number is lower than the ratio of AA households in moderate-income tracts, reflecting poor dispersion. No loans were made to households in the one moderate-income tract, compared to 19 percent of AA households located in the moderate-income tract. However, this is mitigated by the size and location of the one moderate-income tract in the AA coupled with the middle-income tracts in Mitchell County being designated as distressed due to their poverty level. The moderate-income tract is very small and located in the City of Sweetwater. There are several financial institutions within Sweetwater, while CNB has no physical presence there. Additionally, the percentage of CNB consumer loans by number originating in distressed middle-income tracts is excellent at 100 percent. The AA has no low-income tracts. 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 adversely impact the bank’s overall performance, resulting in an overall reasonable dispersion.

Geographic Distribution of Consumer Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans						
Consumer Loans	0.00	0	18.56	0	53.42	100.00	28.02	0

Source: U.S. Census data; Loan Sample

The percentage of CNB commercial loans by number originated in moderate-income tracts is lower than the ratio of AA households in moderate-income tracts, reflecting

poor dispersion. No loans were made to businesses in the one moderate-income tract, compared to 19 percent of AA businesses located in the moderate-income tract. As noted above, the moderate-income tract located in the city of Sweetwater is very small and CNB has no physical presence there. The percentage of CNB’s business loans originated in the distressed middle-income tracts by number is excellent at 100 percent. 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 adversely impact the bank’s overall performance, resulting in an overall reasonable dispersion.

Geographic Distribution of Loans to Businesses in AA								
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
Commercial	0.00	0	18.58	0	57.53	100.00	23.89	0

Source: 2016 Dunn and Bradstreet data; Loan Sample

Responses to Complaints

Neither the bank nor the OCC have received any CRA-related complaints during the evaluation period. This has a neutral effect on CNB’s CRA performance.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or in any AA, or by an affiliate whose loans have been considered as part of the bank’s lending performance.

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