



Comptroller of the Currency
Administrator of National Banks

CRA Decision #78
May 1997

April 30, 1997

Mr. James E. Wallace
Chairman and CEO
City National Bank
P. O. Box 1776
Kilgore, Texas 75663-1776

Re: Application to Establish a Domestic Branch;
Application Control Number: 97-SW-05-0016

Dear Mr. Wallace:

This is to inform you that the Office of the Comptroller of the Currency (OCC) has conditionally approved your proposal to establish a branch at 5199½ U.S. Highway 259 North, Longview, Gregg County, Texas 75605.

As you know, the OCC removed this application from our expedited review procedures in accordance with 12 CFR 5.13 in light of adverse comments submitted by The Urban League of East Texas. The comment letter alleged unfair lending practices, prejudicial and discriminatory statements by City National Bank officers, and improper credit denials. The OCC conducted additional interviews and performed a targeted review at the bank to investigate the allegations. Our conclusions, based on the additional investigation, did not support the allegations of unfair lending practices, prejudicial and discriminatory statements by bank officials, or improper credit denials.

The comment letter also brought to our attention the need for the bank to improve its record of lending in low- and moderate-income areas in Longview, Texas, which we confirmed in our targeted review. In 1995, the bank made no loans in low-income areas. Our review revealed that in 1996 the bank increased its lending in both low- and moderate-income areas only very slightly. Therefore, we believe that the bank must improve its performance in meeting the credit needs of the low- and moderate-income areas of Longview.

Accordingly, OCC has granted approval for the bank to establish the new branch subject to the following condition:

Within three months after the proposed branch is opened, the bank must submit to the Deputy Comptroller of the Southwestern District Office a CRA plan acceptable to the OCC that specifically details actions the bank will take to serve the credit needs of residents and

Mr. James E. Wallace
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businesses located in low- and moderate-income census tracts in Longview, Texas.

The above condition is considered “a condition imposed in writing by the agency in connection with the granting of any application or other request” within the meaning of 12 U.S.C. § 1818. As such, the condition is enforceable under 12 U.S.C. § 1818.

If the branch is not opened within 18 months from this date, the conditional approval shall automatically terminate unless the OCC has granted an extension of the time period. The District Office must be advised in writing at least 10 days in advance of the effective date desired for the branch opening so that the OCC may issue the necessary approval letter authorizing the branch.

A more detailed description of both the protest and our findings are contained in the attached letter to The Urban League of East Texas, which is incorporated herein by reference.

If you have any questions, contact me at (202) 874-5060 or Licensing Manager Michael K. Hughes at (214) 720-7052. Please include the application control number in all correspondence.

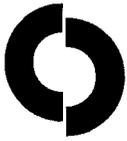
Sincerely,

/s/

Troy L. Dixon
Director for Corporate Activity

Attachment

cc: The Urban League of East Texas



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

April 30, 1997

ATTACHMENT

Board of Directors
The Urban League of East Texas
1605 Judson Road, Suite #20
Longview, Texas 75601

Re: Branch Application Filed by City National Bank, Kilgore, Texas
Application Control Number: 97-SW-05-0016

Dear Members of the Board:

This is to inform you that the Office of the Comptroller of the Currency (OCC) granted conditional approval to the application by City National Bank ("CNB") to establish a branch at 5199½ U.S. Highway 259 North, Longview, Gregg County, Texas 75605. This bank is headquartered in Kilgore and opened a branch in Longview in August 1995. As you will note below, we have required the bank to provide us with its plan to improve its performance in meeting the credit needs of low- and moderate-income residents and businesses in low- and moderate-income census tracts in Longview.

As we informed you earlier, after receiving your February 21, 1997 letter, the OCC removed CNB's branch application from our expedited review procedures and conducted a targeted investigation of the issues you raised. (We note that you requested the OCC to defer action on the application for a 45-day period). OCC officials who participated in this investigation were different personnel from those who had participated in the most recent full-scope Community Reinvestment Act examination of CNB. During our investigation we interviewed your president, among other individuals, and reviewed records at the bank. We also reviewed the additional material that Mr. Hanon forwarded us on March 24. The following discussion addresses each of the issues raised in your letter.

1. Complaint of unfair lending practices and policies by CNB with respect to business loans in minority communities and allegations that the bank violated the Fair Credit Reporting Act.

Your letter asserted that CNB has discriminated against minority-owned business applicants for credit. Since the Federal Reserve's Regulation B, under the Equal Credit Opportunity Act, prohibits banks from collecting data regarding the race or national origin of applicants for business loans, this allegation was difficult to address without

having specific information about targets of the potential discrimination. Mr. Hanon alleged that the bank's handling of a loan request he submitted for the East Texas Transit System (ETTS) was evidence of unfairness. We reviewed the bank's handling of this application, which had been withdrawn by another official of ETTS, and found no support for this allegation. Our examiners reviewed a sample of loan application files for other types of credit for which racial information was available, and found no evidence of discrimination. The result was consistent with the findings by our examiners at the two most recent regular examinations of the bank.

Mr. Hanon also indicated that he believed the bank's handling of ETTS' application violated the Fair Credit Reporting Act, because the bank had not given ETTS a notice of its adverse action on the loan application. We advised Mr. Hanon that the Equal Credit Opportunity Act and Fair Credit Reporting Act require a bank to provide an applicant with a notice of adverse action upon the denial of an application, although it can provide oral adverse notifications to small business applicants. Since the loan was withdrawn prior to a decision by the bank, no adverse action notice was required under either Act.

2. Complaint that CNB has failed to provide sufficient loans in minority and low- and moderate-income census tracts.

Our examiners reviewed the bank's lending by census tract and determined that in 1995 the bank made no loans to residents or businesses in low-income census tracts and made 27 loans to residents or businesses in moderate-income census tracts. The bank's lending in these categories increased very slightly in 1996: 7 loans were made in low-income census tracts and 59 loans were made in moderate-income census tracts.

As you will note in the attached copy of our letter to the bank granting conditional approval to the branch application, we advised the bank that it needs to improve its performance in meeting the credit needs of residents and businesses in the low- and moderate-income census tracts in Longview. We are requiring that the bank provide us with a specific plan for increased lending in these areas.

3. Complaint that CNB failed to present a comprehensive CRA program that demonstrated it had adequately ascertained the credit needs of the entire community in which it conducts business.

Your letter also requested that we require the bank to adopt a CRA program comparable to those adopted by other area banks. Our investigation of this issue revealed that a misunderstanding existed with respect to the requirements of the CRA, as the regulation has been amended. Banks are no longer evaluated by the regulator agencies on

ascertainment activities or the quality of CRA plans or programs. Rather, the new CRA regulation emphasizes bank performance, and the Performance Evaluations now issued by the regulatory agencies do not discuss bank ascertainment activities or the quality of CRA plans and programs. In this regard, the Performance Evaluation samples that you submitted as part of your protest reflected assessments which were made under the old CRA regulation.

4. Complaint that certain CNB officers made prejudicial and discriminatory comments with regard to business loans in low- and moderate-income communities and to minority-owned businesses.

The OCC interviewed Mr. Hanon, several officers of the bank, and the individual who Mr. Hanon alleged had been the recipient of inappropriate comments. Excluding Mr. Hanon, none of the other persons substantiated his allegation.

5. Requests that OCC require CNB to: 1) display and advertise a notice requesting that individuals who have been denied credit from CNB should contact your organization; 2) sponsor public hearings in low- and moderate- income census tracts; and 3) submit a copy of its commercial lending records to your organization, including geographic distribution, lending by ethnic groups, gender, and monetary amounts.

Normally, the OCC does not have the authority to impose such requirements on the bank unless we were to do so as part of an order designed to correct an unsafe or unsound banking practice or a violation of a law or regulation.

We trust you will find our actions appropriate under the circumstances. If you have any questions, contact me at (202) 874-5060 or Licensing Manager Michael K. Hughes in our Dallas office at (214) 720-7052.

Sincerely,

/s/

Troy L. Dixon
Director for Corporate Activity

Attachment

cc: City National Bank of Kilgore