



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

## **PUBLIC DISCLOSURE**

**September 30, 2002**

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

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

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

**Comptroller of the Currency  
ADC - Austin  
8310 Capital of Texas Highway North Suite 250  
Austin, TX 78731**

**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.**

## TABLE OF CONTENTS

<u><i>INSTITUTION'S CRA RATING</i></u> .....	<i>1</i>
<i>DESCRIPTION OF INSTITUTION</i> .....	<i>1</i>
<u><i>DESCRIPTION OF ASSESSMENT AREA</i></u> .....	<i>2</i>
<u><i>CONCLUSIONS ABOUT PERFORMANCE CRITERIA</i></u> .....	<i>4</i>

## **INSTITUTION'S CRA RATING**

**This institution is rated "Satisfactory."**

The City National Bank's (CNB) lending performance meets the standard for satisfactory performance given its size, financial condition, and known credit needs in its assessment area (AA).

- The loan-to-deposit (LTD) ratio is satisfactory, averaging 43% since our last examination. This performance is in line with similarly situated banks in its AA.
- A majority of CNB's loans, 78% of the number and 67% of the dollar amount, originated since August 1998 are within its AA.
- CNB has demonstrated satisfactory performance in its willingness to extend loans to individuals of varying incomes and agricultural-related businesses of different sizes.
- The geographic distribution of loans is strong, exceeding standards for satisfactory performance.
- There have been no complaints with respect to CNB's CRA performance.

The following pages further describe CNB's CRA performance.

## **DESCRIPTION OF INSTITUTION**

CNB is a \$155 million bank headquartered in Taylor, Texas, approximately 35 miles northeast of Austin, Texas. CNB is 100% owned by CNB Financial Corporation, Inc., a one-bank holding company. In addition to the main office, the bank has a separate lending office and a mini-bank office in Taylor, and nine automated teller machines (ATMs) in its AA. Attached to the mini-bank office is a drive-in facility.

The institution's primary focus is to promote economic development in its AA through its lending programs and community involvement. Although CNB's market niche is commercial, residential, consumer, and agricultural loan products, its primary products are commercial and residential real estate loans. The following table reflects a detailed breakdown of CNB's loan portfolio as of June 30, 2002.

<b>Loan Type</b>	<b>Dollar Amount \$ (000)</b>	<b>% of Total Loans</b>
Commercial and Industrial	24,657	38.7
Real Estate (RE) Residential (1-4)	14,521	22.8
RE Nonfarm Nonresidential	12,707	20.0
Agriculture Production	4,392	6.9
Consumer	4,116	6.5
RE Farmland	2,767	4.4
Obligations of States and Political Subdivisions	265	0.4
Other	237	0.3
<b>Total</b>	<b>63,662</b>	<b>100%</b>

Complete banking services are provided Monday through Friday. CNB's 24-hour Internet web site provides bank 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.

CNB continues to participate in the Federal Home Loan Bank's (FHLB) Affordable Housing Program (AHP). Grant monies provided by the FHLB of Dallas and received by CNB are used to help low-income families purchase a home with down payment and closing cost assistance. Since our prior CRA evaluation, CNB has obtained \$378,000 and \$210,000 in grant monies to assist in the funding of several projects targeting low-income individuals. The Sunset Addition will be a new residential development planned by the Taylor Housing Authority (THA). Low-income borrowers will be provided \$9,000 to use either toward construction costs or down payment assistance. The second project, sponsored by the Sunnah Corporation, will provide affordable housing to low- and moderate-income (LMI) families as well as the elderly.

CNB faces competition from area banks, savings and loans, credit unions, and an investment brokerage firm. Based on its financial condition, the local economy, product offerings, and competition, CNB has the ability to meet the various credit needs in its community. At the last CRA examination in March 1998, the bank's CRA rating was "Satisfactory." No legal impediments or other factors hinder CNB's ability to provide credit.

## **DESCRIPTION OF ASSESSMENT AREA**

CNB's AA consists of eight census tracts (CTs) located in eastern Williamson County and one block numbering area (BNA) located in Milam County. The CTs within Williamson County are part of the Austin-San Marcos Metropolitan Statistical Area (MSA), which includes the city of Taylor and smaller communities/cities such as Granger, Hutto, and Thrall. The sole BNA, which is located in a non-MSA, is comprised of the city of Thorndale. Specific demographic data for both areas is listed on the chart on the following page.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>		
<i>Population</i>	<i>Austin-San Marcos MSA</i>	<i>Non-MSA</i>
Number of Families	6,127	638
Number of Households	8,181	830
<i>Geographies</i>		
Number of Census Tracts/BNA	8	1
% Low-Income Census Tracts/BNA	12.5%	0
% Moderate-Income Census Tracts/BNA	25.0%	0
% Middle-Income Census Tracts/BNA	50.0%	0
% Upper-Income Census Tracts/BNA	12.5%	100%
<i>Median Family Income (MFI)</i>		
1990 MFI for AA	\$31,240	\$30,074
2001 HUD-Adjusted MFI	\$64,700	\$35,800
<i>Economic Indicators</i>		
Unemployment Rate	2.8%	2.1%
2001 Median Housing Value	\$49,341	\$35,800
% of Households Below Poverty Level	18.6%	17.1%

The local economy is considered stable and has been largely unaffected by the downturn in the Austin economy. The local unemployment rate is currently 2.1%. Primary industries within the AA include retail trade, services, and light manufacturing. Major area employers include ALCOA, Intercraft Industries, Taylor Independent School District, and the City of Taylor. The local economy is undergoing a revival and is poised for future growth. The two primary factors supporting projected growth are the influx of younger individuals in search of more affordable housing and the relocation of several businesses to the area. The Taylor Economic Development Corporation has been successful in attracting employers such as the Electric Reliability Council of Texas and several light manufacturing companies 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 City Manager of Taylor during this examination. The contact mentioned that CNB is very active in the community and very responsive to credit needs in the Taylor area.

The bank's AA is made up of contiguous CTs or BNAs, which surround and include each banking office. The consolidated AA includes a total of eight CTs and one BNA. This area meets the requirements of the regulation and does not arbitrarily exclude LMI geographies.

### ***Austin—San Marcos MSA Assessment Area***

This AA includes one low- and two moderate-income tracts within the county. The AA also includes four middle- and one upper-income tract. Based on the 1990 Census data, the AA has a population of 22,771. According to the 1990 housing data as provided in the census, there are 9,470 housing units in this area of which 62% are owner-occupied, 24% renter-occupied, and 14% are vacant. Income information from the United States Department of Housing and Urban Development (HUD) reveals that the median family income (MFI) level for the Austin-San Marcos MSA was \$64,700 in 2001.

### ***Milam County Assessment Area***

This AA consists of one upper-income BNA in Thorndale, which is located in western Milam County. According to data obtained from the 1990 census, the AA has a population of 2,266. The 1990 housing data provided in the census indicates that 66% of the 1,003 housing units are owner-occupied, while 19% of the housing units are renter-occupied, and 15% remain vacant. HUD reveals that the MFI level for the non-metropolitan areas in Texas was \$35,800 in 2001.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

Based on our analysis and recognition of the demographic characteristics of CNB's AA, management is effectively meeting the credit needs of its trade area, including LMI individuals, consistent with its resources and capabilities. 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 40 consumer and 20 business loans that were originated since our prior CRA evaluation.

CNB's CRA record was evaluated using five criteria established for small banks. Performance criteria included an analysis of the LTD ratio, the level of lending within the bank's AA, distribution of lending to borrowers of varying incomes, and the geographic dispersion of loans. Additionally, we conducted a review of any complaints related to CNB's CRA performance.

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

LTD ratio is satisfactory, given its asset size, financial condition, and the lending opportunities in the AA. The average LTD ratio over the 17 quarters since the last examination was 43%. To better understand the bank's performance, we performed an LTD ratio analysis of four other banks, which are either headquartered or have branches in the AA. The LTD ratios for these similarly situated banks ranged from 29% to 59%. The average LTD for the peer group was 42%. The chart below lists the details of our LTD analysis.

<b>INSTITUTION</b>	<b>TOTAL ASSETS *</b>	<b>AVERAGE LTD RATIO % *</b>
First Texas Bank – Georgetown	184,868	29.3
FNB Cameron – Cameron	133,479	38.8
First Texas Bank – Round Rock	126,968	39.0
First State Bank – Granger	71,153	59.1
<b><i>City National Bank – Taylor</i></b>	<b><i>154,763</i></b>	<b><i>42.5</i></b>

### **Lending in Assessment Area**

A majority of the bank's loans are within its AA. Upon independent testing of the validity of internal reports provided by management and data obtained from HMDA, those reports were utilized to perform an analysis of lending patterns within the AA. Of the loans originated since the prior evaluation, 78% of the number and 67% of the dollar volume of the bank's primary loan products were originated within the AA. The following table provides details by product type.

<b>TOTAL LOANS REVIEWED</b>								
	<b>In Assessment Area</b>				<b>Out of Assessment Area</b>			
<b>Loan Type</b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>
Commercial	275	73.9	13,258	60.2	97	26.1	8,784	39.8
Residential RE	285	86.4	7,286	77.9	45	13.6	2,066	22.1
Consumer	1209	77.4	11,675	70.0	353	22.6	5,032	30.0
Total Reviewed	1,769	78.1	32,219	67.0	495	21.9	15,882	33.0

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

CNB's loan portfolio reflects a good distribution of residential and consumer loans among individuals of various income levels and a good dispersion to businesses of different sizes. In order to assess the bank's performance in this criteria, we used HMDA information relative to mortgage loan products originated between 1999 and 2001, and a sample of commercial and consumer loans originated since the prior evaluation. HMDA data includes originations from both the MSA and non-MSA.

CNB lends to all applicants, regardless of income category. Greater weight was placed on the results of the residential real estate and commercial lending analysis, rather than consumer lending, given their high concentration within the loan portfolio. The tables listed below summarize our analysis of lending activity in the AA by different incomes levels.

<b>RESIDENTIAL REAL ESTATE</b>									
<b>Entire AA</b>									
<b>Borrower Income Level</b>	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>		
<b>% of AA Families</b>	<b>27.0</b>		<b>18.5</b>		<b>23.3</b>		<b>31.2</b>		
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	
Total	26.3	15.4	24.6	22.4	22.8	25.6	23.9	30.0	

<b>CONSUMER</b>									
<b>Austin-San Marcos MSA</b>									
<b>Borrower Income Level</b>	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>		
<b>% of AA Households</b>	<b>31.4</b>		<b>15.5</b>		<b>16.2</b>		<b>36.8</b>		
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	
Total	45.0	43.2	30.0	15.4	20.0	32.8	5.0	8.6	

<b>CONSUMER</b>								
<b>Non MSA – Milam County</b>								
<b>Borrower Income Level</b>	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
<b>% of AA Households</b>	<b>18.9</b>		<b>14.7</b>		<b>15.3</b>		<b>51.1</b>	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
<b>Total</b>	20.0	15.4	10.0	11.0	40.0	33.8	30.0	39.8

CNB originates a satisfactory number of commercial loans, a number of which have been to “small businesses” with revenues less than \$1 million. Management continues to focus on providing loans that will enhance the local economy. The chart below reflects the results of our analysis of a sample of commercial loans originated in the Austin-San Marcos MSA since 1998. Inability to obtain a sufficient sample of commercial loans originated in the non-MSA AA prohibited an analysis of lending patterns in that portion of the bank’s AA.

<b>BORROWER DISTRIBUTION OF LOANS TO BUSINESSES</b>		
<b>Austin-San Marcos MSA</b>		
<b>Business Revenues</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>
% of AA Businesses	92.7	7.3
% of Bank Loans in AA #	85.0	15.0
% of Bank Loans in AA \$	85.3	14.7

### **Geographic Distribution of Loans**

CNB demonstrates strong performance in lending to geographies of all income levels in relation to the demographics of the AA, including the location of the population within eastern Williamson County. Our analysis included all mortgage-related loans originated between 1999 and 2001, and a sample of commercial and consumer originated since 1998. Given the high concentration of commercial and mortgage loans in the bank’s portfolio, greater emphasis was placed on the results of those tests. The charts below reflect the results of our sample of the geographic distribution of mortgage, commercial, and consumer loans originated within the bank’s AA.

<b>RESIDENTIAL REAL ESTATE</b>								
<b>Entire AA</b>								
<b>CT Income Level</b>	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
<b>% AA Owner Occupied</b>	<b>10.1</b>		<b>24.3</b>		<b>57.0</b>		<b>8.6</b>	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
<b>Total</b>	20.0	17.4	21.4	23.3	41.8	44.8	16.8	14.4



<b>COMMERCIAL LOANS</b>								
<b>Austin-San Marcos MSA</b>								
<b>CT Income Level</b>	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
<b>% AA Owner Occupied</b>	<b>6.1</b>		<b>27.3</b>		<b>62.5</b>		<b>4.1</b>	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	10.0	4.6	30.0	13.2	55.0	76.4	5.0	5.8

<b>CONSUMER</b>								
<b>Austin-San Marcos MSA</b>								
<b>CT Income Level</b>	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
<b>% of AA Households</b>	<b>11.6</b>		<b>25.4</b>		<b>55.4</b>		<b>7.6</b>	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	25.0	23.6	15.0	14.1	60.0	62.3	0	0

### **Responses to Complaints**

CNB has not received any complaints about its performance in helping to meet AA credit needs during this evaluation period.

### **Fair Lending Review**

An analysis of consumer and mortgage loans originated since the prior CRA evaluation period, as well as a review of public file comments and consumer complaint information was performed in accordance with the OCC's risk-based fair lending examination standards. This analysis revealed no basis for the OCC to conduct a comprehensive fair lending examination in connection with this CRA evaluation. The latest fair lending examination was performed in June 1998.