



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 30, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**City National Bank of Sulphur Springs
Charter Number 3989**

**201 Connally Street
Sulphur Springs, TX 75482**

**Comptroller of the Currency
Longview Field Office
1800 West Loop 281, Suite 306
Longview, TX 75604**

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.

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INSTITUTION'S CRA RATING: This institution is rated satisfactory.

City National Bank of Sulphur Springs has a satisfactory record of meeting community credit needs. This 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.

DESCRIPTION OF INSTITUTION

City National Bank of Sulphur Springs is a \$158 million bank located at 201 Connally, Sulphur Springs, Texas. The bank is wholly owned by Sulphur Springs Delaware Financial Corporation, which is wholly owned by Sulphur Springs Bancshares, Inc. The bank has two full service branch offices, one in Sulphur Springs and another in Winnsboro, Texas. In addition, a separate mortgage banking office is also located in Sulphur Springs. Automated teller machines (ATMs) are located at all branch locations, with two additional ATMs housed in local convenience stores. The bank offers a variety of loan and deposit products, as well as Internet banking options. As of March 31, 2001, loans totaled \$111 million and represented 69.8% of the bank’s total assets. The following chart reflects the distribution of the bank’s loan portfolio.

Loan Category	\$ (000)	%
Commercial Real Estate Loans	18,214	16.36
Commercial Loans	19,151	17.20
Agriculture Loans	15,864	14.25
Agriculture Real Estate	9,715	8.74
Residential Real Estate Loans	32,036	28.78
Consumer Loans	16,333	14.67
Total	\$111,313	100.00%

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 January 31, 1997.

DESCRIPTION OF THE ASSESSMENT AREA

The Board has designated the following counties as its assessment area: Hopkins, Delta, Franklin, Rains, Wood and Hunt. Hunt County is a part of the Dallas Metropolitan Statistical Area (MSA). The assessment area includes one low-income tract, ten moderate-income tracts, twenty-seven middle-income tracts, and two upper income tracts. The low and moderate-income tracts are all located in Hunt County. The assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude low and moderate-income geographies. The following table provides a description of the assessment area based on census data and 2001 Department of Housing and Urban Development (HUD) information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF ASSESSMENT AREA	
<i>Population</i>	
Number of Families	39,834
Number of Households	53,899
<i>Geographies</i>	
Number of Census Tracts/BNA	40
% Low-Income Census Tracts/BNA	2.5%
% Moderate-Income Census Tracts/BNA	25.0%
% Middle-Income Census Tracts/BNA	67.5%
% Upper-Income Census Tracts/BNA	5.0%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$30,606
2001 HUD-Adjusted MFI	\$47,955
<i>Economic Indicators</i>	
Unemployment Rate	2.95%
2001 Median Housing Value	\$46,069
% of Households Below Poverty Level	17.92%

The designated assessment area has a total population of 141,930. Only 2.47% of all families live in low income census tracts/block numbering areas (BNAs), 22.51% live in moderate income census tracts/BNAs, 68.81% live in middle income census tracts/BNAs, and 6.21% live in upper income tracts/BNAs. The distribution of families by income level within the assessment area consists of the following: 23.8% are low income, 19.1% are moderate income, 21.4% are middle income, and 35.7% are upper income.

Major employers in the area include Sulphur Springs ISD, Grocery Supply, Wal-Mart Stores, Buster Paving, Nordstrom Valves, Clayton Homes, Ocean Spray Cranberries, Ballard Milk Company, TXU Mining, Lowes Distribution, and other area Independent School Districts. Major employees in the Hunt County area are Raytheon, Rubbermaid, and local Independent School Districts. Competition within the assessment area is strong with numerous financial institutions. The local economy is considered stable with an unemployment rate of 2.95%.

Contacts with a local business organization and realtor revealed the primary community credit needs for the assessment area are commercial loans and residential mortgages. The realtor discussed the need for affordable housing.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio of City National Bank of Sulphur Springs is more than reasonable given the bank's size, financial condition, and assessment of area credit needs. The bank's quarterly average loan-to-deposit ratio was 70.27% since the prior CRA examination in January 1997. The average loan-to-deposit ratio of banks within the assessment area for the same period was 59%. The quarterly average loan-to-deposit ratio for each bank in the assessment area is listed below.

Institution	Assets (as of 03/31/01)	Average LTD Ratio
First National Bank, Cooper	19,762	30.12%
First National Bank, Mineola	33,859	32.19%
Delta State Bank, Cooper	20,593	44.65%
FNB Emory	70,095	52.42%
Alliance Bank, Sulphur Springs	303,070	52.80%
First National Bank of Quitman	104,479	54.31%
First Bank, Celeste	33,884	54.69%
FNB Mt. Vernon	76,536	55.74%
Lone Oak State Bank	11,282	57.93%
Franklin NB, Mt. Vernon	45,880	60.65%
1 st State Bank, Hawkins	30,811	61.71%
Wood County NB, Quitman	59,910	63.02%
FNB, Winnsboro	127,412	63.29%
Enloe State Bank	14,840	92.09%
Benchmark Bank, Quinlan	109,029	98.12%
<i>City National Bank, Sulphur Springs</i>	<i>158,519</i>	<i>70.27%</i>

Lending in Assessment Area

A substantial majority of the bank's lending activity is located within the assessment area. We reviewed a sample of 24 residential mortgages, 27 consumer loans, and 29 commercial loans, which have originated since January 1998. This sample revealed that approximately 93.75% of the number of loans and 80.08% 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 table.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential	23	95.83	1,541	92.71	1	4.17	121	7.29
Consumer	26	96.30	222	91.53	1	3.70	21	8.47
Commercial	26	89.66	4,833	76.32	3	10.34	1,500	23.68
Total Reviewed	75	93.75	6,597	80.08	5	6.25	1,641	19.92

Lending to Borrowers of Different Incomes 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. Our sample of loans in the assessment area included 23 residential mortgages totaling \$1,541M and 26 consumer loans totaling \$222M. The distribution of home purchase loans and consumer loans generally approximates the income characteristics of the assessment area. While home purchase loans to low-income families are lower than the demographics of the assessment area, consumer loans to low-income families exceed the demographics of the assessment area. Also, residential mortgages to moderate individuals exceed the demographics for the assessment area. The bank does solicit loans from borrowers of all income levels. Total applications taken for home purchase loans in 2000 was 115, of which 92 (80%) were approved, 16 (13.9%) were denied and 7 were withdrawn. During a seven month period ending July 2001, 50 applications were taken for home purchase, of which, 38 were approved (76%), 11 (22%) were denied and 1 was withdrawn. The bank does sale a majority of home loans in the secondary market through the mortgage company. However, for borrowers that cannot qualify for these loans, the bank does retain the loans and can offer lower down payment options and longer terms. The table below reflects the results of our analysis.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	23.8		19.1		21.4		35.7	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	13.04	2.56	26.09	17.84	26.09	31.86	34.78	47.74

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	28.8		15.9		18.1		37.2	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	26.92	15.37	34.62	34.23	26.92	34.52	11.54	15.89

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on U. S. Census information, there are 5,560 businesses in the assessment area with revenues less than \$1 million. This number represents 94.29% of all businesses within the assessment area. Our sample of commercial loans in the assessment area included 26 loans totaling \$4,833M. The table below reflects the bank’s lending distribution among large and small businesses within the assessment area.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	94.29	5.71
% of Bank Loans in AA #	73.08	26.92
% of Bank Loans in AA \$	44.14	55.68

Geographic Distribution of Loans

The distribution of loans reflects a reasonable penetration throughout the assessment area given the bank’s overall business strategy and locations. While residential lending activity in the low income tracts is less than the percentage of owner occupied homes in these geographies, the one low income tract in the assessment area is located in Hunt County in Greenville. There are several local financial institutions in that area, which provide greater access to consumers. The moderate-income tracts that are also located in Hunt County and are also more conveniently served by local financial institutions in that area. The percentage of households below the poverty level in the low and moderate and income tracts is 35.5% and 20.8%; compared to 17% and 9.5% in middle and upper income tracts. This too can negatively impact opportunities to originate residential mortgages in the low and moderate-income areas.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
%Of AA Owner Occupied	1.9		21.8		69.9		6.4	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	0	0	8.70	4.51	91.3	95.49	0	0

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
%Of AA Households	2.3		23.9		68.4		5.4	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	0	0	7.69	16.88	92.31	83.12	0	0

The geographic distribution of business loans is reasonable based on the bank’s locations and the demographics of each area. The percentage of business loans originated in low and moderate-income tracts is low compared to the percentage of businesses within these geographies.

However, both the low and moderate-income tracts are located in Hunt County and there are banks in these tracts which are more assessable to businesses located in these tracts. Businesses in these areas generally have a deposit relationship with a nearby bank, which also provides for the businesses' financing needs.

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	1.16		23.40		69.09		6.35	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	0	0	7.69	13.09	92.31	86.91	0	0

Responses to Complaints

Management has not received any written complaints related to CRA performance since the prior CRA examination.

Fair Lending Review

An analysis of year 2000 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that performance of a comprehensive fair lending examination would not be necessary in connection with the CRA evaluation this year. The most recent comprehensive fair lending examination was performed in 1999.