



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

August 21, 2008

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Community National Bank  
Charter Number: 18054

401 West Texas Avenue  
Midland, TX 79701-0000

Office of the Comptroller of the Currency

Lubbock Field Office  
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 Lending Test is rated: Satisfactory**

**The Community Development Test is rated: Satisfactory**

Community National Bank (CNB) has a satisfactory record of meeting community credit needs based on the following:

- CNB's loan-to-deposit ratio is reasonable when compared to banks of similar size and characteristics in or near the assessment areas (AAs). The loan-to-deposit ratio averages 65.1 percent.
- A substantial majority of the loans are within the bank's AAs. Approximately 83.9 percent of the number and 81.2 percent of the dollar volume of loans were to borrowers within the AAs.
- The lending performance to individuals of different income levels and to businesses of different sizes is reasonable.
- The geographic distribution of loans reflects a reasonable dispersion throughout the AAs.
- CNB's community development (CD) performance demonstrates an adequate responsiveness to the needs of its AAs through CD loans, qualified investments and CD services, as appropriate.

## **Scope of Examination**

This Performance Evaluation of CNB assesses the bank's record of meeting the credit needs of the communities in which it operates. We evaluated CNB under the Intermediate Small Bank performance criterion, which includes a Lending Test and a Community Development Test. The Lending Test evaluates a bank's record of helping to meet the credit needs of its AAs through its lending activities. The Community Development Test evaluates a bank's community development lending, qualified investment, and community development services activities. This evaluation covers the period from the date of the previous CRA Examination, July 14, 2003 through August 25, 2008.

- Lending Test conclusions are based on the lending performance of the bank's primary loan products. We evaluated small business and consumer lending from January 1, 2003 through June 30, 2008 in the Lending Test. Prior to conducting this evaluation, we tested the accuracy of the bank's Home Mortgage Disclosure Act (HMDA) data. We found the data to be substantially accurate and, therefore, used all reported HMDA data for January 1, 2003 through June 30, 2008.

- Conclusions regarding the Community Development Test are based on investments, services, and loans conducted in CNB’s AAs, which meet the definition of community development. We conducted the Community Development Test using information from the previous CRA evaluation period, July 14, 2003 through August 25, 2008.
- Our analysis included a full-scope evaluation for the Midland Metropolitan Statistical Area (MSA) AA. Approximately 83.3 percent of the bank’s loans and 91.2 percent of deposits are within this AA. The Midland MSA AA contains eight of the bank’s 10 offices, including the main office. We performed limited-scope evaluations for the Ector County MSA AA and the Martin County AA, each having one branch location.
- We performed the analysis for the Lending Test using the most recent available demographic data. We analyzed lending performance using a loan sample of 1,960 loans. The loan sample consisted of 1,780 HMDA reportable loans and 30 loans for each primary loan type by AA as detailed below:

<u>Assessment Area</u>	<u>Primary Loan Types</u>
Midland MSA	Commercial and Consumer
Ector County MSA	Business and Consumer
Martin County	Farm and Consumer

## Description of Institution

CNB is an intrastate bank located in Midland, Texas and was chartered in 1984. CNB is a wholly owned subsidiary of Midland Bancshares, Inc. (MBI), a one-bank holding company headquartered in Midland, Texas. MBI reported assets of \$508 million as of December 31, 2007.

CNB has 10 offices and operates five automated teller machines (ATMs) in three AAs. Eight locations, including the main banking office, are in the Midland MSA. One office is in Odessa, which is included in the Ector County MSA, and one office is in Stanton, Texas, which is in the non-MSA Martin County. All AAs consist of contiguous census tracts (CTs) and do not arbitrarily exclude any low- or moderate-income geographies.

This Office assigned a “Satisfactory” rating under Small Bank criteria in the prior Public Evaluation dated July 14, 2003. Since that evaluation, CNB has opened two branches. The branch in Odessa is situated in a moderate-income CT, and the branch in Midland is in an upper-income CT.

As of June 30, 2008 CNB had total assets of \$548.4 million with net loans and leases comprising 58.9 percent of this total. The bank’s primary focus is commercial lending centered in the oil and gas industry and related businesses, followed by consumer lending. See the following chart for additional information on the composition of the bank’s loan portfolio as of June 30, 2008.

<b>Loan Portfolio Composition as of June 30, 2008</b>				
<b>Loan Type</b>	<b>\$ (000)</b>	<b>%</b>	<b># of Notes</b>	<b>%</b>
Commercial	167,795	51.43	897	35.42
Commercial Real Estate	91,800	28.14	300	11.84
Residential Real Estate	40,029	12.27	320	12.61
Consumer	8,831	2.71	884	34.98
Agriculture Real Estate	8,081	2.48	33	1.30
Other	5,324	1.63	40	1.57
Agriculture	3,538	1.08	56	2.21
Political Subdivisions	864	0.26	2	0.07
<b>TOTAL</b>	<b>326,262</b>	<b>100%</b>	<b>2,532</b>	<b>100%</b>

*Source: June 30, 2008 Uniform Bank Performance Report and Loan Trial Balance*

Management's and the Board's primary focus is to provide a strong, locally-owned, independent financial institution to serve customers in West Texas while providing a return to shareholders. CNB provides a wide range of traditional deposit and loan products. Branches are accessible to individuals situated in the different areas of the communities they serve. Lobby and drive-up hours are set by location to meet customer needs. CNB has ATMs located at four branches and a stand-alone location in Midland to make customer accounts accessible. Customers may also access their accounts through its website at [www.cnbtx.net](http://www.cnbtx.net). Services include account balance inquiries, funds transfer, and bill payment services. The bank also offers 24-hour telephone banking. Services include account balance inquiries, loan payments, verification of direct deposits, and automated teller machine (ATM) activity. The bank also offers a debit card that provides customers with additional access to their accounts at point of sale or ATM locations.

CNB has no legal or financial circumstances that could impede the bank's ability to help meet the credit needs in its AA. The bank is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks.

## **Description of Assessment Areas**

CNB has three AAs including two MSAs and one non-MSA area. Our analysis included a full-scope evaluation for the Midland MSA AA. The Midland MSA AA contains eight of the bank's 10 offices, including the main office. We performed limited-scope evaluations for the Ector County MSA AA and the Martin County AA, which each have one branch location.

### **Midland MSA AA**

The AA consists of Midland County, Texas. The city of Midland is the county seat and the largest city in the county. The main bank and seven branches are located in the Midland MSA AA. The following table provides a description of the Midland MSA AA based on census data and Department of Housing and Urban Development information.

<b>Demographic and Economic Characteristics of Midland MSA AA</b>	
<i>Population</i>	
Number of Families	31,158
Number of Households	42,751
<i>Geographies</i>	
Number of Census Tracts	27
% Low-Income Census Tracts	7.41%
% Moderate-Income Census Tracts	22.22%
% Middle-Income Census Tracts	40.74%
% Upper-Income Census Tracts	29.63%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$47,309
2007 HUD-Adjusted MFI	\$54,800
2006 HUD-Adjusted MFI	\$55,900
2004 & 2005 HUD-Adjusted MFI	\$54,600
<i>Economic Indicators</i>	
Unemployment Rate	2.56%
2007 Median Housing Value	\$74,413
% of Households Below Poverty Level	12.12%

*Source: 2000 Census data and HUD updated income data.*

The AA consists of whole geographies and does not arbitrarily exclude low- and moderate-income geographies. According to the 2000 census, the AA includes 27 CTs with a total population of 116,009. The CTs consist of two low-, six moderate-, eleven middle-, and eight upper-income. The 2000 Census data reflects that 12.1 percent of the households in the Midland MSA AA are below the poverty level.

According to 2000 Census data, there are 48,060 housing units in the AA, of which 61.9 percent are owner-occupied, 27.1 percent are renter-occupied, and 11.0 percent are vacant. Approximately 20.9 percent of families in the AA are considered low-income. Moderate-income families approximate 18.6 percent, while middle- and upper- income families make up the remaining 60.5 percent. The median housing value is \$74,413 with the median age of housing stock at 35 years.

The city of Midland is at the center of the 100-mile radius Permian Basin, and it is the administrative and management center for the oil and gas industry of the Permian Basin. Consequently, the focus of the Midland MSA AA economy is oil and gas and businesses that support this industry. The Permian Basin produces approximately 16 percent of the nation's oil and 7 percent of the nation's natural gas. Recent data indicates that approximately one-third of drilling activity is directed to natural gas. Due to a high level of economic activity during 2008, Midland has experienced severe labor shortages. The local oil and gas industry pays high wages and is able to hire labor away from other local non-oil businesses. With much lower commodity prices, the labor market will not be as tight going forward.

Competition for financial services in the AA is very strong. The June 30, 2007 FDIC Deposit

Market Share Report for the Midland MSA AA shows \$2.8 billion of deposits divided among 14 financial institutions. The AA includes four branches from multi-national banks and several regional community banks. The top two banks (members of nation-wide organizations with eight offices in the Midland MSA) hold over 38.4 percent of the AA deposits. CNB's deposits in this AA total \$355 million, which equates to a 12.5 percent deposit market share.

The overall economy of the area is largely based on oil and gas production. The oil and gas industry has historically been volatile. Record prices of oil earlier in 2008 approached \$150 per barrel, with current prices hovering close to \$40 to \$45 per barrel. The largest employers within the AA include the many oil and gas related companies, Midland Independent School District, and Midland Memorial Hospital and Medical Center. For 2007, the Bureau of Labor and Statistics' unemployment analysis indicates Midland County to have one of the lowest unemployment rates in the state of Texas.

Efforts are being made to diversify the local economy. A quarter-cent sales tax increase was recently approved to be used for economic development. These funds are to help recruit new businesses and expand existing businesses in the city.

As part of this CRA examination, we made two community contacts in the Midland MSA AA to help ascertain the credit needs of the AA. We made one contact earlier and one during the examination. The community contacts noted that there are several opportunities to participate in community service activities. Opportunities for participation by local financial institutions include financial literacy training and lending for affordable housing and small businesses. The contacts also indicated that local banks are responsive to meeting the credit needs of the community.

**Ector County MSA AA**

The Ector County MSA AA consists of Ector County, which includes the city of Odessa. The city of Odessa is the county seat and the largest city in the county. CNB has one full-service branch in Odessa, which opened in October 2005. The following table provides a description of the Ector County MSA AA based on census data and Department of Housing and Urban Development information.

<b>Demographic and Economic Characteristics of Ector County AA</b>	
<i>Population</i>	
Number of Families	31,856
Number of Households	43,806
<i>Geographies</i>	
Number of Census Tracts	29
% Low-Income Census Tracts	3.45%
% Moderate-Income Census Tracts	20.69%
% Middle-Income Census Tracts	41.38%
% Upper-Income Census Tracts	34.48%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$36,250
2007 & 2006 HUD-Adjusted MFI	\$43,400
2005 HUD-Adjusted MFI	\$41,900
2004 HUD-Adjusted MFI	\$41,800
<i>Economic Indicators</i>	
Unemployment Rate	3.44%
2007 Median Housing Value	\$49,407
% of Households Below Poverty Level	18.38%

*Source: 2000 Census data and HUD updated income data.*

The AA consists of whole geographies and does not arbitrarily exclude low- and moderate-income geographies. The AA is comprised of 29 CTs consisting of 1 low-income tract, 6 moderate-income, 12 middle-income, and 10 upper-income CTs, with a total population of 121,123. The 2000 Census data reflects that 18.4 percent of the households in the AA are below the poverty level.

According to 2000 Census data, there are 49,500 housing units in the AA, of which 60.8 percent are owner-occupied, 27.8 percent are renter-occupied, and 11.4 percent are vacant. Approximately 21.2 percent of families in the AA are considered low-income. Moderate-income families approximate 17.5 percent, while middle- and upper- income families make up the remaining 62.3 percent. The median housing value is \$49,407 with the median age of housing stock at 39 years.

The city of Odessa is also located in the Permian Basin. As such, the local economy is centered around oil and gas production and the many service companies that support the industry. Top employers in this AA are the many oil and gas related companies, Ector County Independent School District, Medical Center Hospital, Wal-Mart Stores, Inc, and the city of Odessa.

Competition for financial services in the AA is very strong. The June 30, 2007 FDIC Deposit Market Share Report for the Ector County MSA AA shows \$1.8 billion of deposits are divided among 13 financial institutions. The AA includes four branches from multi-national banks and several regional community banks. The top two banks (one a member of a multi-national organization and the other a locally owned bank with a combined total of six offices in the Ector County MSA AA) hold approximately 35.3 percent of the AA deposits. CNB's deposits in this AA total \$14 million, which equates to a 0.77 percent deposit market share representing the second smallest percentage. This level of deposit market share is reflective of the CNB branch

opening in Odessa in October 2005.

We made one community contact for the limited-scope evaluation of the Ector County MSA AA. The community contact indicated that the local economy is strong as a result of the increase in oil and gas production. One of the greatest needs in the Ector County MSA AA is more affordable housing to accommodate the workforce. The contact indicated that local banks provide needed credit, investment, and financial services.

### **Martin County AA**

This AA consists of Martin County. The principal city in the AA is Stanton, which is also the county seat. The bank has one branch located in the AA, and it is in the city of Stanton. The following table provides a description of the Martin County AA based on census data and Department of Housing and Urban Development information.

<b>Demographic and Economic Characteristics of Martin County AA</b>	
<i>Population</i>	
Number of Families	1,271
Number of Households	1,636
<i>Geographies</i>	
Number of Census Tracts	2
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	0.00%
% Middle-Income Census Tracts	100.00%
% Upper-Income Census Tracts	0.00%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$36,380
2007 HUD-Adjusted MFI	\$41,800
2006 HUD-Adjusted MFI	\$43,100
2004 & 2005 HUD-Adjusted MFI	\$42,000
<i>Economic Indicators</i>	
Unemployment Rate	1.96%
2006 Median Housing Value	\$49,773
% of Households Below Poverty Level	18.70%

*Source: 2000 Census data and HUD updated income data.*

The AA consists of whole geographies and does not arbitrarily exclude low- and moderate-income geographies. The AA is comprised of two CTs, both of which are middle-income. The 2000 Census data reflects that 18.7 percent of the households in Martin County are below the poverty level. Federal agencies have designated the CTs located in Martin County as distressed areas due to population losses.

According to 2000 Census data, the AA has a total population of 4,746. There are 1,898 housing units in the AA, of which 63.6 percent are owner-occupied, 22.0 percent are renter-occupied, and 14.4 percent are vacant. Approximately 19.8 percent of families in the AA are considered low-income. Moderate-income families approximate 18.7 percent, while middle- and upper- income families make up the remaining 61.5 percent. The median housing value is \$49,773, with the median age of housing stock at 40 years.

There are two financial institutions in the AA, which results in a moderate level of competition



for financial services. In addition to the CNB branch, there is another locally owned national bank. The June 30, 2007 FDIC Deposit Market Share Report for Martin County shows CNB to hold over 30.1 percent of the deposits, or the second largest deposit market share in the AA.

Agriculture is the primary industry in the AA. Primary agricultural products include cotton and cattle. The largest non-agricultural employers within the AA include the Stanton Independent School District, Caprock Electric, and WesTex Telephone Cooperative.

We made one community contact for the limited-scope evaluation of the Martin County AA. The community contact indicated that the local agricultural-based economy is stable, but there is a need for affordable housing. The contact indicated that the local banks are doing an excellent job in meeting the credit needs of the community.

## Conclusions with Respect to Performance Tests

### LENDING TEST

The bank’s performance under the Lending Test is rated Satisfactory.

#### Loan-to-Deposit Ratio

CNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the credit needs of the AAs. This determination is based on the bank's quarterly average loan-to-deposit ratio from June 30, 2003 through June 30, 2008 of 65.1 percent. During the evaluation period, CNB's loan-to-deposit ratio ranged from a low of 56.4 percent to a high of 72.5 percent. The average loan-to-deposit ratio of similarly situated banks within or contingent to the AAs for the same period was 68.9 percent.

The quarterly average loan-to-deposit ratio for each similarly situated bank in or contiguous to the AAs is depicted below.

Loan-to-Deposit Ratios		
Institution	Total Assets \$ (000's) (As of 06/30/2008)	Average Loan-to-Deposit Ratio
<b>Community National Bank, Midland</b>	<b>548,429</b>	<b>65.12%</b>
First National Bank of Midland	278,679	59.15%
West Texas National Bank, Midland	512,025	62.23%
Security State Bank, Odessa	245,965	78.88%
West Texas State Bank, Odessa	221,819	62.84%
Western National Bank, Odessa	830,997	81.27%

*Source: Institution Reports of Condition from June 2003 to June 2008*

#### Lending in Assessment Area

CNB’s lending in their AAs exceeds the standards for satisfactory performance. A substantial majority of the bank's loans were made within its AAs. In order to assess performance for this criterion, we reviewed 60 commercial, 30 farm, 90 consumer, and 1,780 home mortgage loans originated between January 2003 and June 30, 2008. Our analysis determined that 83.9 percent of the number of loans and 81.2 percent of the dollar amount of loans in the sample were

originated within the bank's AAs. The breakdown by loan category is depicted in the following table.

<b>Lending in all Assessment Areas</b>										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	56	93.33	4	6.67	100.0	17,917	97.08	539	2.92	100.0
Consumer	86	95.56	4	4.44	100.0	1,356	92.24	114	7.76	100.0
Agriculture	29	96.67	1	3.33	100.0	3,274	81.36	750	18.64	100.0
Home Mortgage	1,473	82.75	307	17.25	100.0	150,092	79.51	38,673	20.49	100.0
Totals	1,644	83.88	316	16.12	100.0	172,639	81.16	40,076	18.84	100.0

Source: Sample of loans used for CRA performance analysis

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

The distribution of loans made to individuals and families of different income levels and businesses of different sizes is reasonable, with emphasis on small business lending.

#### Midland MSA AA

The distribution of loans originated to businesses with revenues less than \$1 million is somewhat lower by both the number of loans and dollar amount of loans. The percentage of businesses within the AA that generate revenues less than \$1 million is 64.51 percent based on independent data provided by Dunn and Bradstreet. CNB originated 37.50 percent of its total small business loans to businesses with revenues less than \$1 million. As noted in the performance context, the local economy is centered in oil and gas production and the companies that support this industry. The level of gross revenues generated by these business entities was impacted as the price for oil and gas increased. In addition, revenues are unknown for 29.5 percent of the businesses in the AA, which reduces the reliability of this analysis. The following table shows the distribution of commercial loans among businesses of different sizes in this AA.

<b>Borrower Distribution of Business Loans in Midland MSA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	64.51%	5.95%	29.54%	100%
% of Bank Loans in AA by #	37.50%	34.37%	28.13%	100%
% of Bank Loans in AA by \$	25.47%	68.12%	6.41%	100%

Source: Loan sample; Dunn and Bradstreet data

The distribution of consumer loans to low- and moderate-income borrowers exceeds the percentage of low- and moderate-income households in the AA. The percentage of households within the AA that are low-income is 20.19 percent. Our loan sample reflected that 27.78 percent of consumer loans were made to low-income individuals. The percentage of households within the AA that are moderate-income is 14.95 percent. Our loan sample reflected that 16.67 percent of consumer loans were made to moderate-income individuals. The following table reflects the distribution of loans among individuals of different income categories.

<b>Borrower Distribution of Consumer Loans in Midland MSA</b>								
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	20.19%	27.78%	14.95%	16.67%	17.68%	11.11%	47.18%	44.44%

Source: Loan sample; U.S. Census data.

Residential loans to low-income borrowers are somewhat lower than the percentage of low-income families in the AA. Also, the percentage of loans to moderate-income borrowers is lower than the level of moderate-income families in the AA. Approximately, 20.88 percent of families are low-income and 18.60 percent are moderate-income. Based on the updated median family income for the area of \$54,800, low-income families in the AA earn less than \$27,400 per year. In addition, roughly 12.12 percent of families in the AA are below poverty level. Based on 2000 census data, the median housing cost is \$74,413. It is often difficult for low- and moderate-income individuals to qualify for mortgage loans at median housing values due to insufficient income levels and/or down payments.

The following table reflects the analysis of HMDA reportable loans for 2005 through June 30, 2008. The analysis of HMDA reportable loans for 2003 and 2004 is not inconsistent with the findings of the 2005 through June 30, 2008 analysis. Therefore, the tables for 2003 and 2004 are not included in this evaluation.

<b>Borrower Distribution of Residential Real Estate Loans in Midland MSA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	20.88%	8.36%	18.60%	14.82%	19.33%	24.26%	41.20%	44.47%
Home Improvement	20.88%	22.55%	18.60%	8.82%	19.33%	19.61%	41.20%	48.04%
Refinancings	20.88%	1.87%	18.60%	14.95%	19.33%	27.10%	41.20%	48.60%
Total*	20.88%	9.66%	18.60%	13.79%	19.33%	23.97%	41.20%	45.86%

Source: 2005, 2006 and 2007 HMDA LARs and 1/1/08 – 6/30/08 HMDA Loan Register; U.S. Census data. \*6.72 percent of borrowers did not report income information.

Based on limited-scope reviews, the bank’s lending performance for borrowers of different

income levels and businesses of different sizes in Ector County MSA AA and Martin County AA is not inconsistent with the bank’s overall performance.

**Geographic Distribution of Loans**

CNB’s geographic loan distribution is satisfactory. Performance for small business, consumer, and residential lending reflects a reasonable dispersion throughout the AA.

Midland MSA AA

The geographic distribution of sampled small business loans in low-income CTs is well above the percentage of small businesses in these areas. The percentage of businesses located in low-income CTs is 5.75 percent, and our loan sample reflected that 12.50 percent of small business loans were located in low-income CTs. Conversely, the distribution of sampled loans to small businesses in moderate-income CTs is well below the percentage of small businesses in these areas. The following table summarizes the distribution of small business loans by census tract income level.

<b>Geographic Distribution of Loans to Businesses in Midland MSA</b>								
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
Business Loans	5.75%	12.50%	31.99%	15.63%	35.23%	53.12%	27.03%	18.75%

Source: Loan sample; U.S. Census data.

The geographic distribution of sampled consumer loans is well above the distribution of households located in low-income CTs. Approximately 4.63 percent of households in the AA are located in low-income CTs. Our loan sample indicated that 5.56 percent of loans were located in low-income CTs. The percentage of bank loans located in moderate-income CTs is somewhat lower than the distribution of households in these tracts. The following table shows the distribution of consumer loans made to borrowers of different income levels within the AA.

<b>Geographic Distribution of Consumer Loans in Midland MSA</b>								
Census Tract 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	4.63%	5.56%	17.23%	13.89%	44.58%	55.56%	33.55%	25.00%

Source: Loan sample; U.S. Census data.

The percentage distribution of residential loans is lower than the percentage of owner-occupied housing units in low-income CTs. In the AA, only 4.50 percent or 1,338 owner-occupied housing units are located in low-income geographies. This results in limited opportunities to make mortgage loans in these geographies. The percentage distribution of mortgage loans is somewhat lower than the percentage of owner-occupied housing units in moderate-income CTs.

The following table reflects the analysis of residential loans for 2005 through June 30, 2008. The distribution of residential loans for 2003 and 2004 is not inconsistent with the findings of the 2005 through June 30, 2008 analysis. Therefore, the tables for 2003 and 2004 are not included in this evaluation.

Geographic Distribution of Residential Real Estate Loans in Midland MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	4.50%	1.35%	18.42%	12.67%	44.68%	44.47%	32.40%	41.51%
Home Improvement	4.50%	0.98%	18.42%	24.51%	44.68%	48.04%	32.40%	26.47%
Refinancings	4.50%	0.00%	18.42%	4.67%	44.68%	55.14%	32.40%	40.19%
Total	4.50%	1.03%	18.42%	13.28%	44.68%	47.07%	32.40%	38.62%

Source: 2005, 2006 and 2007 HMDA LARs and 1/1/08 – 6/30/08 HMDA Loan Register; U.S. Census data.

*Conclusions for Areas Receiving Limited-Scope Reviews*

Based on limited scope reviews, the bank’s lending performance for loan distribution of small business, consumer, and residential loans in Ector County MSA AA is not inconsistent with the bank’s overall performance. The Martin County AA did not have any low- or moderate-income CTs. Therefore, we did not perform a geographic distribution analysis for this area.

**Responses to Complaints**

There have been no consumer complaints relating to the bank’s CRA performance during the evaluation period.

**COMMUNITY DEVELOPMENT TEST**

CNB’s performance under the Community Development Test is **“Satisfactory.”**

The bank’s community development (CD) performance reflects an adequate responsiveness to CD needs within the AAs. The bank has conducted CD activities through a mix of CD loans, investments, and services. The availability of bank products has a positive impact on the overall community development rating. The branch distribution is excellent. More detail on the level of activity within each of the three components of the CD Test is provided below, along with the regulatory definition of CD.

According to the definition found in 12 CFR 25, Community Development means:

- Affordable housing for low- or moderate-income individuals;
- Community services targeted to low- or moderate-income individuals;
- Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual

- revenues of \$1 million or less; or
- Activities that revitalize or stabilize:
  - low- or moderate-income geographies;
  - designated disaster areas; or
  - distressed or underserved non-metropolitan middle-income geographies.

## **Community Development Loans**

CNB originated 32 community development loans totaling \$2.8 million during the evaluation period. CNB's performance in this area, with consideration given to the available opportunities, reflects an adequate responsiveness to the communities' needs.

Sixteen loans totaling \$980 thousand were for interim construction to the Midland Community Development Corporation (MCDC) in the Midland MSA AA involving two housing development projects for new housing. These homes were constructed to provide affordable housing for low- to moderate-income individuals. CNB also made four loans totaling \$200 thousand to the MCDC for temporary funding costs related to the low- and moderate-income housing projects until the permanent funding could be obtained. CNB also made two loans totaling \$15 thousand to the MCDC to help fund micro-loans to assist small businesses. The loans extended to the MCDC addressed two needs identified by local community contacts: affordable housing and small business development.

In the Ector County MSA AA, CNB refinanced the \$250 thousand purchase of a 24-unit apartment complex that provides affordable housing to low- and moderate-income individuals. The rents are affordable for low- and moderate-income persons, and the apartments are located in a moderate-income census tract in the AA.

In the Martin County AA, CNB originated three loans totaling \$416 thousand for interim construction for new housing to revitalize a distressed non-metropolitan middle-income tract. The loans ranged from \$124 thousand to \$148.5 thousand. The construction of these homes provides a short-term benefit to low- and moderate-income individuals in the community through the creation of temporary construction jobs.

## **Qualified Investments**

During this evaluation period, CNB's qualified investments included donations to 14 organizations totaling \$172 thousand. The level of investments reflects adequate responsiveness to the communities' needs. CNB's qualified investments in the Midland MSA AA included donations to eight organizations totaling \$122 thousand. Qualified investments in the Ector County MSA AA included donations to five organizations for \$35 thousand. The \$15 thousand qualified investment in the Martin County AA was a donation to one organization. All funds are specifically targeted to benefit low- or moderate-income individuals or support organizations whose major purpose is revitalizing low- and moderate-income CTs within the AAs.

## **Community Development Services**

CNB's CD services include the bank's products, services, and branch locations that may provide assistance or community services to low- or moderate-income individuals. In addition to their

full-service branch and ATM locations, CNB also offers Internet banking and telephone banking for added availability to the bank’s products. Branch and ATM delivery systems include 10 full-service branch locations and five ATMs. CNB has three branches or 30 percent of the bank’s full-service locations located in moderate-income CTs. The table below provides a summary of CNB’s branch and ATM distribution.

Distribution of Bank Offices and ATMs by Census Tract						
Census Tract Income Level	Tracts in AA		Full-Service Offices		Automated Teller Machines*	
	#	%	#	%	#	%
Low	2	3.44%	0	0.00%	0	0.00%
Moderate	12	20.69%	3	30.00%	2	40.00%
Middle	26	44.83%	4	40.00%	2	40.00%
Upper	18	31.04%	3	30.00%	1	20.00%
NA	0	0.00%	0	0.00%	0	0.00%
<b>Total</b>	<b>58</b>	<b>100.00%</b>	<b>10</b>	<b>100.00%</b>	<b>5**</b>	<b>100.00%</b>

Source: 2000 U.S. Census Data; \*No ATMs accept deposits; \*\*Includes 4 ATMs contiguous to banking locations.

Through its employees, CNB is also involved in a variety of community development services that reflect an adequate responsiveness to the communities’ needs. Many of the bank’s employees are involved with organizations that provide services to low- and moderate-income individuals. Numerous officers and bank employees also provide technical assistance through participation on finance or budget committees of local entities that provide services to low- or moderate-income persons in the Midland MSA AA. Although not a comprehensive list, some of the community development services include:

*Money Smart*

CNB employees in the Midland MSA AA have volunteered as instructors for the Money Smart classes since 2004. Originally these classes, offered at the Casa de Amigos location, were for individuals who desired to have a better understanding of banking and credit processes. Beginning in 2007, the bank joined with the Business and Economic Development Center (BEDC) of Midland College to develop the Individual Development Account (IDA) program. The clients who enroll must complete the Money Smart course. CNB sets up the IDA account for the customer to deposit funds. Those funds are matched \$3 for every \$1 deposited through a Hispanic Serving Institutions Assisting Communities grant. CNB provides the account records to the BEDC which secures the matching funds. Enrollees may use the funds in the IDA to purchase a home or to invest in a small business.

*VITA*

CNB employees received training to prepare tax returns for low- and moderate-income individuals in both the Midland MSA AA and the Ector County MSA AA. Using this training, CNB employees provided guidance to individuals about the availability of the earned income tax credit and child care credit to enable the individuals to maximize their tax refunds and/or minimize their tax liability.

The level of services reflects an adequate responsiveness to the communities’ needs.

*Conclusions for Areas Receiving Limited-Scope Reviews*

Based on limited-scope reviews, the bank’s performance in the Ector County MSA AA and

Martin County AA is not inconsistent with the bank's overall "Satisfactory" rating performance under the Community Development Test. The branch location in the Ector County MSA AA is located in a moderate-income census tract. Additionally, the branch in Martin County is located in a distressed middle-income census tract. Banking services are consistent with the area receiving a full-scope review with the exception that the Martin County AA branch does not have an ATM, nor were branch employees involved in any community development services.

## **Fair Lending or Other Illegal Credit Practices Review**

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