



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 15, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Citizens National Bank at Brownwood
Charter Number 14273

1 Carnegie
Brownwood, TX 76801-0000

Office of the Comptroller of the Currency

ADC-FORT WORTH Field Office
9003 Airport Freeway Suite 275
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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 performance of the Citizens National Bank, Brownwood, Texas, (CNB) reflects satisfactory responsiveness to the community's credit needs. This assessment is based on the following conclusions:

- The bank's average loan-to-deposit ratio meets the standards for satisfactory performance given its resources, local credit needs, and local competition.
- A significant majority of the loan activity is within the identified assessment area (AA), which exceeds the standards for satisfactory performance.
- The distribution of loans reflects satisfactory lending activity to individuals of different income levels. The distribution of loans to businesses of different sizes reflects strong distribution to small business.
- The geographical distribution reflects satisfactory distribution into the census tracts of different income levels.

SCOPE OF EXAMINATION

We performed a full-scope review of CNB's primary assessment area, Brown County, which was the basis for our overall rating of CNB's CRA efforts. The evaluation period for our assessment was January 3, 2007 to November 15, 2011. Loan products evaluated included 1-4 family residential loans, commercial real estate loans and general commercial loans. Our sample sizes consisted of 60 total loans (20 from each sample product). For the ***Lending to Businesses of Different Sizes*** test we omitted loans that were made outside of the assessment area and replaced them with loans inside the assessment area. The loans included in the sample originated between January 2007 and December 2011, and were selected at random.

DESCRIPTION OF INSTITUTION

CNB is a \$180 million bank headquartered in Brownwood, Texas, which is located approximately 140 miles northwest of Austin, Texas. CNB is 100% owned by Brownwood Bancshares, Inc. (BBI), a one-bank holding company. BBI is 100% owned by Citizens Financial Corporation of Brownwood, Inc., also located in Brownwood.

The bank has one branch located at the Brownwood Super Wal-Mart, and also operates four automated teller machines (ATMs) located in its AA. A drive-in facility is provided at the motor bank adjacent to the main office.

The institution's principal focus is to promote economic development in its AA through its lending programs. Primary lending products include residential, commercial real estate, and various types of commercial and consumer loans. CNB also participates in government-guaranteed small business and rural development loans, and originates a number of residential mortgage loans that are sold into the secondary mortgage market. Total loans as of September 30, 2011, amounted to \$114 million, which represents 63% of total assets. The following table details the bank's loan mix.

Loan Portfolio Composition as of September 30, 2011		
Loan Category	\$ (000)	%
Commercial Real Estate Loans	28,113	24.67%
Residential Real Estate Loans	26,534	23.28%
Commercial Loans	25,343	22.24%
Agricultural Loans	15,388	13.51%
Consumer Loans	11,571	10.13%
Government Related	6,936	6.09%
Other	96	0.08%
Total	113,963	100.00%

Source: September 30, 2011 Report of Condition

Complete banking services are provided Monday through Friday at both offices, as well as extended services on Saturday at the drive-through facility and the Wal-Mart branch.

Holiday banking services are also provided at the Wal-Mart Branch. CNB has a 24-hour telephone audio response system, which allows customers to obtain account balance information, transfer funds between accounts, and make loan payments. This institution also has an Internet web site (www.cnb-brownwood.com), which provides information concerning the bank's services and allows customers to obtain deposit account information, transfer funds between accounts, and pay bills. Customers can also e-mail CNB (cnb@web-access.net) concerning account inquires and other account concerns.

CNB faces strong competition from area banks, savings and loans, and investment brokerage firms. Based on its financial condition, the local economy, product offerings, competition, and prior performance, CNB has the ability to meet the credit needs in its community. At the last CRA examination in January 2007, CNB's CRA rating was "Satisfactory." No legal impediments or other factors hinder the bank's ability to provide credit in its AA.

DESCRIPTION OF ASSESSMENT AREA(S)

CNB has designated Brown County as its AA. The assessment area is legal and meets the requirements of the regulation. This area includes the city of Brownwood and smaller communities such as Bangs, Blanket and May, and is made up of 12 tracts, which surround and include each bank office. This is the same area designated in the previous examination.

According to the housing data as provided in the 2000 Census, there are approximately 18 thousand housing units in Brown County, of which 58% are owner-occupied, 22% are renter-occupied and 20% are vacant. The median year built for housing is 1970, with a median value of \$48,164 thousand. Specific demographic and economic data for this area is listed in the following table.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	10,082
Number of Households	14,344
Geographies	
Number of Census Tracts/Block Numbering Area (BNA)	12
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	16.67%
% Middle-Income Census Tracts/BNA	75.00%
% Upper-Income Census Tracts/BNA	8.33%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$38,361
2011 HUD-Adjusted MFI	\$48,600
Economic Indicators	
Unemployment Rate	3.98%
2006 Median Housing Value	\$48,164
% of Households Below Poverty Level	17.54%

Source: 2000 Census data and HUD updated income data.

Based on 2000 Census data, the AA has a combined population of 38,674. Approximately 21% of the families in the AA are considered low-income. Moderate-income families approximate 16% of the population, while middle- and upper-income families comprise the remaining 63%. The local economy is considered generally good and the current unemployment rate remains below state and national averages at 3.98%. Primary industries within Brown County include light manufacturing, retail trade, services, and agricultural livestock operations. Major commercial employers include the Kohler Company, the 3-M Company, Superior Cable, Brownwood Independent School District, and Brownwood Regional Medical Center.

In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted one of the community leaders during this examination. The contact stressed the need for an uptick in small business lending within the AA but noted that there has been a recent increase in SBA lending activities at the banks within the area. The contact further stated that economic conditions were good especially with increased opportunities in the oil and gas companies in the area and that CNB is active in the community and responsive to credit needs in Brown County.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Our conclusions in this section are based on the lending activity since the previous CRA examination dated January 2, 2007. We used loan, borrower income, and assessment area data provided by the bank and tested it for accuracy. We selected samples from the 1-4 family, commercial real estate and general commercial portfolios in order to evaluate the bank's lending performance within the assessment area (refer to **SCOPE OF THE EXAMINATION** for details). For the **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes** and **Geographic Distribution of Loans** we replaced loans originated outside of the assessment area with loans originated inside the assessment area.

Loan-to-Deposit Ratio

CNB's loan-to-deposit (LTD) ratio meets the standards for satisfactory performance.

The LTD ratio measures the extent to which the subject bank has returned the deposits it has received to the community in the form of loans. The average of such ratios for each quarter-end since the last CRA examination was used to determine performance in this area. The average LTD ratio for CNB since the last CRA examination was 69.3%. The assessment area and surrounding counties contain seventeen other institutions with which to compare CNB. The average LTD ratios, for the same period, of these institutions ranged from 31% to 90%. CNB's LTD ratio is reasonable and reflects satisfactory efforts to meet the credit needs of the communities served.

Lending in Assessment Area

CNB's lending within the assessment areas exceeds the standards for satisfactory performance.

This section quantifies what proportion of the bank's lending activity was within its assessment area. An institution that exhausts its resources lending in other areas, to the exclusion and detriment of its own assessment area, would be considered less than satisfactory. However, the vast majority of CNB's lending efforts are concentrated within the assessment area.

To assess the bank's performance in this area we used the samples described above. Based on our sample results, a majority of loans were within the bank's assessment area. The following tables reflect the results of our assessment of the bank's efforts to lend in its assessment area.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
1-4 Family Loans	20	100%	\$1,725	100%	0	0%	\$0	0%
Commercial Real Estate Loans	19	95%	\$1,018	89%	1	5%	\$130	11.3%
General Commercial Loans	18	90%	\$4,322	96%	2	10%	\$194	2%
Total Reviewed	57	95%	\$7,065	95%	5	5%	\$324	4.43%

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

CNB’s loan distribution to the different household and family income levels as well as businesses of different sizes, meets the standards for satisfactory performance.

The bank obtains and analyzes applicant income information during the loan decision process; however this information is not used for CRA purposes. To assess CNB’s efforts, we used the samples described above. Also, the bank does not have a minimum loan amount in policy. We reviewed the loan trial and noted a number of loans for \$500 or less (the lowest was \$115.00), and noted an additional number of other credits for \$1,000 or less. This factor helps to further underscore the bank’s role in meeting the credit needs of the community. The following tables reflect the results of our three loan samples.

Borrower Distribution of 1-4 Single Family Residence Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Consumer Loans	21%	15%	16%	20%	21%	20%	42%	45%

A significant majority of CNB’s commercial and commercial real estate loans are to businesses with gross annual revenues of less than \$1 million. The following tables illustrate the lending distribution to businesses located within the bank’s assessment area.

Borrower Distribution of General Commercial Loans				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	68%	3%	29%	100%
% of Bank Loans in AA by #	90%	0%	10%	100%
% of Bank Loans in AA by \$	99%	0%	1%	100%

Borrower Distribution of Commercial Real Estate Loans				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	68%	3%	29%	100%
% of Bank Loans in AA by #	90%	0%	10%	100%
% of Bank Loans in AA by \$	97%	0%	3%	100%

Geographic Distribution of Loans

CNB's loan distribution, to the different geography income levels, meets the standards for satisfactory performance. The distribution of loans originated follows a pattern indicative of an institution seeking to serve the credit needs of the assessment area.

As noted before, the bank obtains specific borrower information, including addresses; but, the information obtained is not sufficiently detailed to track loans by location for CRA purposes. Therefore, the samples noted earlier were used to assess the bank's effort in this section. Based on our analysis, CNB's lending efforts reasonably penetrate into the geographies of the different income levels. The results of our analysis are illustrated in the following table.

GEOGRAPHIC DISTRIBUTION OF LOANS						
Geographic Breakdown *	Moderate Income		Middle Income		Upper Income	
% of Geographies	16.7%		75%		8.3%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
1-4 Family Loans	5%	0.3%	90%	97.3%	5%	2.3%
Commercial Real Estate Loans	10%	14.3%	85%	81.1%	5%	4.7%
General Commercial Loans	25%	43.2%	65%	53.6%	10%	3.3%

* There are no Low Income geographies in the assessment area

Responses to Complaints

CNB has not received any complaints pertaining to its CRA performance during this evaluation period.

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.