

# SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

October 15, 2007

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Citizens National Bank  
Charter Number: 17456**

**1320 Loop 304 East  
Crockett, TX 75835**

**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.**

**INSTITUTION CRA RATING: The institution is rated satisfactory.**

Citizens National Bank of Crockett has a satisfactory record of meeting community credit needs. This rating is based on the following:

- The bank’s loan-to-deposit ratio is reasonable based on the bank’s performance context and lending opportunities within its assessment area.
- A substantial majority of the bank’s loans are extended within the bank’s assessment area.
- Credit activity reflects excellent penetration to borrowers of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.

**SCOPE OF EXAMINATION**

This Performance Evaluation is an assessment of the record of Citizens National Bank of Crockett in meeting the credit needs of the communities in which it operates. The bank was evaluated under the Small Bank performance criteria. Citizens National Bank’s primary loan products are consumer and business loans. Conclusions regarding the bank’s lending performance are based on consumer and business loans originated from June 18, 2002 through October 15, 2007.

**DESCRIPTION OF INSTITUTION**

Citizens National Bank of Crockett is a \$79 million bank. The bank is a Sub-Chapter S Corporation owned by a one-bank holding company (Citizens Bancorp). The bank also has an automated teller machine (ATM) located at its office, in addition to walk-in and drive-up teller facilities. There are no other branches or ATM locations. As of June 30, 2007, loans totaled \$34 million and represented 49% of total assets. Primary product lines consist of commercial and consumer loans. The following chart reflects the distribution of the bank’s loan portfolio.

| <b>LOAN CATEGOERY</b> | <b>\$ (000)</b> | <b>%</b>       |
|-----------------------|-----------------|----------------|
| Commercial Loans      | \$15,160        | 44.27%         |
| Consumer Loans        | \$7,983         | 23.31%         |
| 1-4 Family Mortgages  | \$6,291         | 18.37%         |
| Agricultural Loans    | \$4,813         | 14.05%         |
| <b>Total</b>          | <b>\$34,247</b> | <b>100.00%</b> |

There are no legal impediments or other factors that inhibit the bank's ability to meet the credit needs of the community. The bank was rated satisfactory during the prior CRA Examination dated April 28, 2003.

## DESCRIPTION OF ASSESSMENT AREA

The Board has designated Houston County, Texas as the bank's assessment area. The designated assessment area includes seven Census Tracts (CTs), all of which are located in Houston County. These CTs include the communities of Crockett (county seat), Grapeland, Lovelady, and Kennard. The assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude low or moderate income areas. Houston County has a population of 23,185, based on the 2000 U.S. Census. Approximately 28% of families located within the assessment area are low-income; 16% are moderate-income; 18% are middle-income; and 38% are upper-income. All but one of the CTs is designated as middle-income. CT 9504 is a moderate income tract and includes the southern half of the City of Crockett. The median family income for the assessment area is \$34,099 with unemployment low at 2.23%. Discussions with local business leaders revealed that the economy is enjoying significant growth due to the discovery of a large natural gas field. Hotels are operating at full capacity and the area has seen an increase in Bed and Breakfasts and trailer parks. Major employers in the area include Vulcraft Steel Fabrication, Crockett ISD, Texas Department of Criminal Justice, and East Texas Medical Center. Competition remains strong in the area with one other national bank, two state banks, and several bank branches.

| <b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF HOUSTON COUNTY</b> |          |
|---|----------|
| <b><i>Population</i></b>  |          |
| Number of Families  | 5,786    |
| Number of Households  | 8,268    |
| <b><i>Geographies</i></b>   |          |
| Number of Census Tracts   | 7        |
| % Low-Income Census Tracts  | 0.00%    |
| % Moderate-Income Census Tracts                                   | 14.29%   |
| % Middle-Income Census Tracts                                     | 85.71%   |
| % Upper-Income Census Tracts                                      | 0.00%    |
| <b><i>Median Family Income (MFI)</i></b>                          |          |
| 2000 MFI for AA   | \$34,099 |
| 2006 HUD-Adjusted MFI   | \$43,100 |
| <b><i>Economic Indicators</i></b>                                 |          |
| Unemployment Rate   | 2.23%    |
| 2000 Median Housing Value   | \$49,168 |
| % of Households Below Poverty Level                               | 20.89%   |

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

- The bank’s overall lending performance is satisfactory. The bank’s loan to deposit ratio is reasonable and a substantial majority of loans are within the bank’s assessment area. Credit activity reflects excellent penetration to borrowers of different income levels and businesses of different sizes. Additionally, the geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.

### Loan-to-Deposit Ratio

The loan-to-deposit ratio of Citizens National Bank is reasonable given the bank's size, financial condition and assessment area credit needs. The loan-to-deposit ratio is comparable to other banks headquartered in the bank's assessment area. The quarterly average loan-to-deposit ratio for the bank is 54.16% since the prior CRA examination in June 2002. The average loan-to-deposit ratio of banks within the assessment area for the same time period is 59.35%.

| INSTITUTION                     | Assets (000s) (as of 6/30/07) | Average LTD Ratio |
|---------------------------------|-------------------------------|-------------------|
| Citizens National Bank          | \$79,241                      | 54.16%            |
| First National Bank of Crockett | \$148,425                     | 82.29%            |
| Grapeland State Bank            | \$19,938                      | 32.74%            |
| Lovelady State Bank             | \$32,933                      | 68.20%            |

### Lending in Assessment Area

A substantial majority of the bank's lending is located within the assessment area. Primary lending products consist of business and consumer loans. Our sample included these loan types that originated since January 2005. The sample reflected that 98% of the number of loans and 97% of the dollar amount of loans were extended within the bank's assessment area. The attached table further illustrates the breakdown by loan category.

| Lending in Houston County Assessment Area |                 |         |         |       |       |                          |         |         |        |       |
|---|-----------------|---------|---------|-------|-------|--------------------------|---------|---------|--------|-------|
| Type of Loan                              | Number of Loans |         |         |       |       | Dollars of Loans (000's) |         |         |        |       |
|   | Inside          |         | Outside |       | Total | Inside                   |         | Outside |        | Total |
|   | #               | %       | #       | %     |       | \$                       | %       | \$      | %      |       |
| Consumer Loans                            | 19              | 95.00%  | 1       | 5.00% | 20    | \$124                    | 84.35%  | \$23    | 15.65% | \$147 |
| Commercial Loans                          | 20              | 100.00% | 0       | 0.00% | 20    | \$741                    | 100.00% | \$0     | 0.00%  | \$741 |
| <b>Totals</b>                             | 39              | 97.50%  | 1       | 2.50% | 40    | \$865                    | 97.41%  | \$23    | 2.59%  | \$888 |

Source: Loan sample.

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

The distribution of loans within the assessment area reflects excellent penetration among borrowers of different income levels and businesses of different sizes. The distribution of consumer loans to low-income borrowers significantly exceeds the percentage of low-income households within the assessment area, while the distribution of consumer loans to moderate-income borrowers generally approximates the percentage of moderate-income households.

| <b>Borrower Distribution of Consumer Loans in Houston County</b> |                    |                      |                    |                      |                    |                      |                    |                      |                      |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|----------------------|
| <b>Borrower Income Level</b>                                     | <b>Low</b>         |                      | <b>Moderate</b>    |                      | <b>Middle</b>      |                      | <b>Upper</b>       |                      | <b>Unavailable</b>   |
|  | % 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 | % of Number of Loans |
| <b>% of Total</b>  | 28.40%             | 40.00%               | 16.57%             | 15.00%               | 17.36%             | 15.00%               | 37.67%             | 30.00%               | 0.00%                |

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

The distribution of business loans reflects an excellent distribution among businesses of different sizes. Based on data obtained from Dun & Bradstreet, the assessment area contains 1,859 non-farm businesses. However, it should be noted 969 or 52.12% of the businesses in the assessment area do not report their revenue. As a result, the percentage of businesses by income level may not accurately reflect a true percentage of the businesses in each income category. Our sample of business loans inside the assessment area revealed a substantial majority of the bank's business loans were to businesses with revenues less than one million.

| <b>Borrower Distribution to Businesses in Houston County</b> |                          |                         |                    |              |
|--|--------------------------|-------------------------|--------------------|--------------|
| <b>Business Revenues (or Sales)</b>                          | <b>&lt;= \$1,000,000</b> | <b>&gt; \$1,000,000</b> | <b>Unavailable</b> | <b>Total</b> |
| <b>% of AA Businesses</b>                                    | 45.00%                   | 2.80%                   | 52.20%             | 100.00%      |
| <b>% of Bank Loans in AA by #</b>                            | 75.00%                   | 25.00%                  | 0.00%              | 100.00%      |
| <b>% of Bank Loans in AA by \$</b>                           | 54.78%                   | 45.22%                  | 0.00%              | 100.00%      |

Source: Loan sample; Dun and Bradstreet data.

## Geographic Distribution of Loans

Citizens National Bank has a reasonable dispersion of loans within the assessment area. The bank's assessment area has no low income tracts, one moderate income tract, six middle income tracts, and no upper income tract. The distribution of consumer loans generally approximates the characteristics of the moderate census tract. The distribution of business loans exceeds the characteristics for the moderate census tract.

| Geographic Distribution of Consumer Loans in Houston County |                    |                      |                    |                      |                    |                      |                    |                      |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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 |
| <b>% of Total</b>   | 0.00%              | 0.00%                | 15.43%             | 15.00%               | 84.57%             | 85.00%               | 0.00%              | 0.00%                |

Source: Loan sample; U.S. Census data

| Geographic Distribution of Commercial Loans in Houston County |                    |                      |                    |                      |                    |                      |                    |                      |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level                                     | Low                |                      | Moderate           |                      | Middle             |                      | Upper              |                      |
|   | % 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 |
| <b>% of Total</b>   | 0.00%              | 0.00%                | 13.45%             | 26.32%               | 86.55%             | 73.68%               | 0.00%              | 0.00%                |

Source: Loan sample; Dun and Bradstreet data.

## Responses to Complaints

Citizens National Bank has not received any written CRA related complaints during the assessment 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.