



PUBLIC DISCLOSURE

January 20, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Citizens National Bank of Texas
Charter Number 13516

200 N. Elm Street, Waxahachie, TX 75165

Office of the Comptroller of the Currency

225 East John Carpenter Freeway, Suite 500 Irving, TX 75062

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.

Major factors that support this rating include:

- The bank's loan-to-deposit (LTD) ratio is reasonable.
- A majority of loan originations and purchases are within the bank's assessment areas (AAs).
- The distribution of residential and business loans to borrowers of different income levels exhibits a reasonable penetration.
- The bank's geographic distribution of residential loans to low- and moderate-income (LMI) census tracts reflects excellent dispersion. The distribution of loans to businesses across LMI geographies is reasonable.
- The overall level and responsiveness of community development (CD) lending, investments, and services is adequate.

Scope of Examination

This Performance Evaluation (PE) assesses the bank's performance under the Lending and Community Development Tests. The evaluation period ranges from May 4, 2011, the date of the prior PE, through January 20, 2015, the date of the current evaluation. However, the Lending Test concentrated on activity from January 1, 2012 to September 30, 2014. In evaluating the bank's lending performance, the bank's primary loan products include business and residential lending with an emphasis on small business lending. We placed the most weight for rating the borrower distribution of loans on small business lending considering the bank's strategic focus is business lending.

Citizens National Bank of Texas (CNBT or bank) is subject to the interagency Intermediate Small Bank (ISB) CRA evaluation procedures. In addition to the Lending Test, ISBs are evaluated under the Community Development Test. Our consideration of CD activity (loans, investments and services) extended from the prior PE date of May 4, 2011 to our current evaluation date of January 20, 2015.

In our evaluation of the distribution of loans, we utilized the demographics and geographies related to the 2010 Census as it applies to the years 2012 through September 30, 2014.

This evaluation is based on accurate data. We tested Home Mortgage Disclosure Act (HMDA) data for residential mortgages and business loan reports provided by the bank

to verify the accuracy of data used for this evaluation. We also verified CD loans, investments, and services submitted by management to ensure they met the regulatory definition for CD. We excluded any items that did not meet the definition or purpose of CD.

We did not consider the activities of affiliates in this evaluation.

We conducted a full-scope review of the AA that consists of the southern part of Dallas County and all of Ellis County. Both counties are part of the Dallas-Plano-Irving Metropolitan Division. A full-scope review considers complete performance context information, quantitative factors and qualitative factors. This AA received the full-scope review because almost all of CNBT's deposits (99 percent), loans analyzed (98 percent), and offices (90 percent) are in that geography. We performed a limited review of the other AA that consists of southern Tarrant County and northern Johnson County and found no conspicuous gaps. Both counties are in the Fort Worth-Arlington Metropolitan Division. Limited-scope reviews consider primarily quantitative factors with performance context data limited to the comparable demographics.

Description of Institution

CNBT is an independent, intrastate bank that was founded in 1868 and granted a national bank charter in 1884. In addition to its main office in Waxahachie, CNBT operates nine branch offices located in Waxahachie (2), Red Oak, Cedar Hill, Midlothian (2), Ennis, Italy, and Burleson. The bank closed its Kaufman branch in February 2013. In May 2014, CNBT closed its Venus and Maypearl branches and consolidated one of its three Midlothian branches into an existing branch in that community. CNBT opened its latest branch in Burleson in September 2014. The previous CRA evaluation, dated May 4, 2011, assigned a "Satisfactory" rating.

First Citizens Bancshares, Inc., a single bank holding company, owns 100 percent of CNBT. There are no legal or financial impediments to CNBT's ability to meet the credit needs of its AA. Although the bank offers a full range of loan and deposit services, its primary business focus are commercial and commercial real estate loans.

As of September 30, 2014, net loans were 73 percent of CNBT's total assets of \$645 million. The following table reflects the bank's loan portfolio summary.

Citizens National Bank of Texas Loan Portfolio Summary		
Loan Category	Dollar Volume (000's)	Percentage
Commercial and Commercial Real Estate	297,534	63%
Residential Real Estate	57,156	12%
Construction and Land Development	61,677	13%
Consumer and Other	56,544	12%
Total Loans	472,911	100%

Source: September 30, 2014 Report of Condition.

The bank's lending strategy continues to be the origination of commercial and commercial real estate loans to small and midsize businesses and business owners, and the origination of residential loans categorized by purchase, refinance, and improvement.

CNBT's branches are the primary delivery system for retail products and services, and are located in areas that make them accessible to bank customers. The bank's 15 ATMs supplement the branches. Two of these ATMs are standalones that are not on branch properties. One is in a low-income census tract in Waxahachie and the other a moderate-income geography in the same community. The bank's main office and Ennis branch are located in low-income tracts. The two Waxahachie branches are both located in a moderate-income geography. The remaining six branch offices are in middle-income census tracts.

Lobby hours and drive-up hours are set to meet customer needs. Banking programs and hours allow the bank to deliver needed banking and credit services to LMI areas and customers as well as small business owners throughout the bank's AAs. Commercial loans including Small Business Administration (SBA) 7(a), 504, and Express loans are offered to new business startups and existing businesses. In 2012, 2013 and through September 30, 2014, CNBT originated 11 SBA Express loans totaling \$1.7 million to assist small business owners. CNBT also provides up to 100 percent financing with their Rural Housing program that eliminates down payment requirements for qualified borrowers. During the review period, the bank granted 15 of these loans to first-time homebuyers totaling \$1.8 million.

Mobile and on-line banking are available to all customers along with a call center that is open seven days a week. In addition to free checking, CNBT provides free customer access to any bank's ATM network for *mPowered* Checking Account holders.

Description of Assessment Area(s)

The bank has two AAs that include:

- Dallas AA consisting of the southern part of Dallas County and all of Ellis County. Both counties are part of the Dallas-Plano-Irving Metropolitan Division.
- Tarrant AA that includes southern Tarrant County and northern Johnson County. Both counties are in the Fort Worth-Arlington Metropolitan Division.

CNBT has reasonably delineated each AA relative to its branch network. Neither AA excludes any LMI census tracts.

Demographic and economic information for each of the two AAs is reflected in the following table:

Demographic and Economic Data for the AAs		
Assessment Area	Dallas	Tarrant
<i>Population</i>		
Number of Families	92,633	36,716
Number of Households	121,756	45,693
<i>Geographies</i>		
Number of Census Tracts	70	24
% Low-Income Census Tracts	5.71	0
% Moderate-Income Census Tracts	15.71	12.50
% Middle-Income Census Tracts	55.71	54.17
% Upper-Income Census Tracts	22.86	33.33
% N/A Census Tracts*	0	0
<i>Median Family Income (MFI)</i>		
2010 MFI for AA	\$67,611	\$67,821
2010 HUD-Adjusted MFI	\$69,000	\$65,500
<i>Economic Indicators</i>		
Unemployment Rate		
Dallas County	4.9%	
Ellis County	4.3%	
Tarrant County		4.6%
Johnson County		4.3%
2010 Median Housing Value	\$127,963	\$124,795
% Households Below Poverty Level	10.0	7.5
% Households Receiving SS	20.8	24.0
% Households Retired	14.3	15.6

*Geographies that have not been assigned an income classification.

Source: 2010 Census data; HUD.

Dallas AA

This AA includes 70 census tracts - 39 in southern Dallas County and 31 (all) in Ellis County. As noted in the above demographic data table, of the 70 tracts, four are low-income census tracts representing 6 percent of the total tracts and 11 are moderate-income geographies representing 16 percent of the total tracts. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude LMI geographies.

The 4.3 percent unemployment rate for Ellis County compares favorably to the unemployment rates for the State of Texas and the national (U.S.) rate that are 4.6 percent and 5.8 percent, respectively. Although the Dallas County rate of 4.9 percent is above the Texas rate it remains well below the national rate.

Major employers in the AA include *Waxahachie ISD* (public education), *Walgreen Company* (distribution center), *Dart Container Corporation* (insulated foam cups), *Wal-Mart Supercenter* (retail), *Baylor Scott and White Medical Center at Waxahachie* (hospital), *Owens-Corning Fiberglass* (insulation), *Magnablend, Inc.* (custom chemical blending), and *Southwestern Assemblies of God University* (private higher education).

Of the total number of businesses and farms in the AA, 71 percent have 1-4 employees and 74 percent earn less than \$500,000 of annual revenue. Almost 7 percent of the AA's businesses are located in the low-income census tracts and 11 percent in the moderate-income geographies.

Nine of the bank's 10 offices are in this AA.

Tarrant AA

This AA includes 24 census tracts - eight in southern Tarrant County and 16 in northern Johnson County. As noted in the above demographic data table, of the 24 census tracts there are no low-income tracts and three are moderate-income geographies representing 13 percent. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude LMI geographies.

The 4.6 percent unemployment rate for Tarrant County is the same as the State of Texas and below the 5.8 percent national unemployment rate. The 4.3 percent unemployment rate for Johnson County is more favorable than both the State of Texas and the national rate.

Major employers in the AA include *Burleson ISD* (public education), *Huguley Memorial Medical Center* (Burleson hospital), *Sabre Tubular Structures* (manufacturer of steel utility structures), *HEB Grocery* (food), *Wal-Mart* (retail) and the *City of Burleson* (government).

Of the total number of businesses and farms in the AA, 70 percent have 1-4 employees and 73 percent earn less than \$500,000 of annual revenue. Approximately 7 percent of the AA's businesses are located in the moderate-income CTs.

One of CNBT's 10 offices is in this AA.

We determined the community credit needs in the AAs by reviewing CRA PEs of other banks operating in the same AAs, conducting discussions with management, gathering input from community contacts, and considering the demographics of the AAs. We determined the most pressing credit needs in the AAs are small business lending, revitalization of downtown Waxahachie, and affordable housing loans.

Conclusions with Respect to Performance Tests

LENDING TEST

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

Loan-to-Deposit Ratio

CNBT's LTD ratio is reasonable given the bank's size, location, local competition, and the credit needs of the AAs. This determination is based on the quarterly average LTD ratio of 84 percent from March 31, 2011 through September 30, 2014. During this evaluation period, CNBT's LTD ratio ranged from a low of 75 percent to a high of 104 percent.

Management considers the banks shown in the following table to be similarly situated institutions (SSIs). With the exception of First Financial Bank, NA, all are community banks less than \$1 billion in assets. All of the SSIs offer similar loan products and have branch locations in the AAs.

The quarterly average LTD ratio for each SSI is listed in the following table. Please note that no ranking is intended or implied.

Loan-to-Deposit Ratios		
Financial Institutions	Total Assets (000's) (As of 9/30/2014)	Average Loan-to- Deposit Ratio
Citizens National Bank of Texas	\$644,603	84.09%
First Financial Bank, National Association	\$5,542,767	53.87%
Vintage Bank	\$187,006	78.04%
First National Bank of Burleson	\$176,587	52.65%
Ennis State Bank	\$148,820	90.26%
The Cowboy Bank of Texas	\$58,718	69.55%
Pinnacle Bank	\$606,758	65.72%

Source: Institution Reports of Condition from March 31, 2011 to September 30, 2014.

Lending in Assessment Areas

A majority of the number and dollar amount of CNBT's loans were originated or purchased inside its AAs. As depicted in Table 1 below (\$000s omitted), 83 percent of the number and 61 percent of the dollar amount of loans were originated or purchased inside the AAs. Almost 77 percent of the number of the business loan originations or purchases occurred inside the AAs.

In our analysis, we included all 1-4 family real estate loans CNBT originated or purchased from January 1, 2012 through September 30, 2014 that are reported under the requirements of the HMDA, as well as all business loans originated or purchased during the same period.

Table 1 - Lending in Combined AAs										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	191	88.43	25	11.57	216	24,604	80.53	5,950	19.47	30,554
Home Improvement	49	92.45	4	7.55	53	4,143	94.07	261	5.93	4,404
Home Refinance	192	86.88	29	13.12	221	28,791	84.63	5,230	15.37	34,021
Business	329	76.51	101	23.49	430	89,514	52.26	81,772	47.74	171,286
Total	761	82.72	159	17.28	920	147,052	61.20	93,213	38.80	240,265

Source: Data reported under HMDA; Bank loan data.

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

The borrower distribution of loans in the Dallas AA is reasonable. CNBT's performance relative to the Tarrant AA is generally consistent with the results of the Dallas AA full-scope review.

As detailed in Table 2 below, in each category in the AA except one, the bank's 1-4 family real estate lending (HMDA reportable loans) to LMI borrowers lagged the percentage of families in those income levels. The percent of home refinance loans to moderate-income borrowers exceeded the percent of families in that category. CNBT's overall distribution of residential loans to LMI borrowers is comparatively low but still considered reasonable.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Dallas AA								
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	20.89	9.84	18.50	10.66	21.84	18.03	38.77	61.48
Home Improvement	20.89	13.64	18.50	11.36	21.84	22.73	38.77	52.27
Home Refinance	20.89	4.60	18.50	18.97	21.84	18.97	38.77	57.47

Source: Data reported under HMDA; U.S. Census data.

As illustrated in Table 2A below, the percentage of loans by number to small businesses (65 percent) is comparable to the percentage of small businesses in the AA (76 percent). A small business is defined as a business with revenues of \$1 million or less. Although the percentage by the dollar volume of loans (46 percent) was below the demographic, we placed the most weight on the number of loans originated or purchased to arrive at a rating.

Table 2A - Borrower Distribution of Loans to Businesses in Dallas AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	75.90	2.08	22.01	100%
% of Bank Loans in AA by #	64.91	35.09	0.00	100%
% of Bank Loans in AA by \$	45.84	54.16	0.00	100%

Source: Bank loan data; Dun and Bradstreet data.

As detailed in Table 2C below, 77 percent of the number of loans to businesses originated by CNBT were in amounts of \$250,000 or less. Loan size often loosely correlates to the size of the business. This is indicative of a bank servicing the credit needs of small businesses.

Table 2C - Borrower Distribution of Loans to Businesses by Loan Size in Dallas AA				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	201	62.42	7,406	8.60
\$100,001 - \$250,000	46	14.29	7,961	9.24
\$250,001 - \$500,000	37	11.49	13,194	15.32
\$500,001 - \$1,000,000	21	6.52	14,800	17.18
Over \$1,000,000	17	5.28	42,782	49.66

Source: Bank loan data.

Geographic Distribution of Loans

The geographic distribution of loans within the Dallas AA is reasonable. CNBT's performance relative to the Tarrant AA is generally consistent with the results of the Dallas AA full-scope review.

CNBT's geographic distribution of residential lending reflects excellent dispersion. In Table 3 below, the percent of the bank's HMDA reportable loans for each residential loan type exceeds the percent of owner occupied housing in the low-income census tracts. This is also the case for the home improvement loans in the moderate-income geographies. Home purchase and refinance lending in the moderate-income tracts are comparable to the percent of owner-occupied housing in those geographies.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Dallas AA								
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	2.89	9.57	12.92	11.70	56.60	49.47	27.60	29.26
Home Improvement	2.89	10.20	12.92	20.41	56.60	42.86	27.60	26.53
Home Refinance	2.89	4.89	12.92	12.50	56.60	48.91	27.60	33.70

Source: Data reported under HMDA; U.S. Census data.

Table 3A below illustrates the extent to which the bank’s lending in the low-income census tracts (19 percent of business loans) surpasses the percent of businesses located in those geographies (7 percent). The volume of CNBT’s business loans in the moderate-income census tracts (5 percent) compares less favorably to the percent of businesses in those geographic areas (11 percent). This represents a reasonable overall distribution of business lending.

Table 3A - Geographic Distribution of Loans to Businesses in Dallas AA								
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
Businesses	6.74	19.20	11.41	5.26	53.76	59.75	28.09	15.79

Source: Bank loan data; D & B data.

Responses to Complaints

CNBT has not received any complaints regarding its CRA performance during the evaluation period.

COMMUNITY DEVELOPMENT TEST

CNBT’s responsiveness to the community development needs of the AAs through CD lending, investments, and services is adequate. Our conclusion is based on the bank’s level of activity and performance context.

The bank has demonstrated an adequate responsiveness to the community development needs of their AAs with CD loans, qualified investments, donations and services taking into consideration the bank’s size, capacity, and financial condition. We considered the needs and availability of such opportunities in the bank’s AAs. The bank’s community development efforts are primarily focused in qualified lending,

investments, and donations. To evaluate the bank's efforts, we reviewed the bank's CD activities since the most recent PE dated May 4, 2011.

Number and Amount of Community Development Loans

Considering the needs and opportunities in the Dallas AA, and the bank's performance context and capacity, the bank's performance is excellent relative to CD lending. During this review period, the bank had 10 relationships with 31 loans that qualify as CD loans. These loans directly benefit the Dallas AA.

CD LOANS	# of Loans	Dollar Amount
Affordable housing	24	\$ 2,312,000
Economic development	2	\$2,148,000
Revitalization and stabilization	5	\$9,461,000
Total	31	\$13,921,000

The CD loans originated by the bank include:

- Twenty-four loans totaling \$2.3 million to four business customers whose business lines are rehabilitating residential properties that are typically in poor or distressed condition. These customers purchase and renovate the properties then rent to individuals. The AA has a need for affordable housing for LMI individuals and families. Working with these borrowers, CNBT helps fill this need.
- Two loans totaling \$2.1 million that promote economic development by creating permanent jobs for lower-wage workers. One of the loans was to a business that created over 20 jobs in the area for local LMI residents.
- Four CD loans totaling \$4.3 million to partnerships for the purchase and renovation of commercial property in downtown Waxahachie. The downtown area is designated an enterprise zone. These loans will help revitalize this low-income geography. Another loan for \$5.2 million assists in providing a campus in Red Oak for a two-year technical school that is part of the Texas State Technical College (TSTC) System. TSTC provides job training and associate degrees to local residents. Over 60 percent of the students from the adjacent Red Oak High School are economically disadvantaged¹. These and other similarly situated area students comprise the target enrollment at TSTC.

Performance in Limited Scope AA

Although performance in the limited-scope AA was not consistent with the excellent responsiveness in the Dallas AA, there are mitigating performance context factors. This AA has no low-income census tracts, only three moderate-income geographies, and less than 8 percent of its households live below the poverty level. Further, this AA accounts for only 1 percent of CNBT's deposits due to a limited branch distribution.

¹ The 2013 CRA Interagency Q&As state that participation in the U.S. Department of Agriculture's National School Lunch Program may be used as a proxy for determining LMI students at a specific school in the absence of family income data.

Number and Amount of Qualified Investments

Considering the needs and opportunities in the Dallas AA and CNBT's performance context and capacity, the bank's performance is adequate relative to qualified investments. CNBT had a total of \$601,000 in qualified investments in this AA during the evaluation period all of which were contributed through charitable donations.

Over 200 donations were made to CD organizations. Noteworthy donation amounts included:

- Baylor Scott and White Medical Center - \$100,000 per year in 2012 and 2013
- M.E. Singleton Scholarship- \$50,000 per year in 2012, 2013, and 2014
- Ellis County Youth Expo - \$35,000 in 2013

Many of the donations were to schools within the Dallas AA for various educational programs and equipment, and much-needed school supplies. Donations to schools were qualified based on 50 percent or more of the students participating in the U.S. Department of Agriculture's National School Lunch Program.

Performance in Limited Scope AA

Performance in the limited-scope AA was consistent with the adequate responsiveness in the Dallas AA.

Qualified Investments Outside the Assessment Areas

Qualified investments made outside the AAs but within the state of Texas during the evaluation period totaled \$1.3 million that consisted of four equity investments. All investments either created or retained permanent jobs for lower-wage workers. In addition to this total, two prior period, long-term investments are still outstanding at the end of the current evaluation period. Their current combined book value is \$144,000. Investments made in prior periods continue to have a positive impact on the area. We gave positive consideration to these qualified investments as the bank has met the CD needs in its defined AAs.

Extent to Which the Bank Provides Community Development Services

During the evaluation period, CNBT exhibited an adequate responsiveness to the CD service needs of the Dallas AA. CNBT meets the CD service needs of the AA through volunteer activities by its directors, officers and employees, many on a continuing basis to the organizations. Bank staff served as directors and committee members, and provided financial literacy training, strategic planning, fundraising, and budgeting expertise.

Board members, officers and employees actively donate their financial and leadership skills to a variety of organizations with a CD purpose. Examples include:

- The Gingerbread House of Ellis County provides legal, psychological, social and medical services to abused children and heightens community awareness.
- The No Roof Left Behind Program provides new roofs to homeowners who are physically and financially unable to replace the roofs on their residences.
- Historic Waxahachie works to revitalize the downtown historic areas that are in LMI census tracts.
- Waxahachie Lions Club sponsors numerous local charities with emphasis on providing services in areas to fight blindness. The Lions club provides glasses to 40 to 50 LMI children and 25 to 30 LMI adults in Waxahachie each year. Also, it assists financially with two to three eye surgeries annually.
- Bankers for Backpacks supports low-income students by providing needed school supplies, clothes, medical aids and backpacks.
- Waxahachie Strategic Planning and Industrial Development establish policies and actions in the city to draw businesses to the area that will create permanent jobs. This organization works to improve the economics for the city and the opportunities for its citizens.

Performance in Limited Scope AA

Performance in the limited scope AA was not inconsistent with the adequate responsiveness in the Dallas AA.

Responsiveness to Community Development Needs

The volume and responsiveness of CNBT to the CD needs of the AA is adequate. The Board has identified financing for small business startups and existing businesses; revitalization/stabilization of LMI geographies; affordable housing for LMI families and individuals; and community services as its primary CD goals. The bank has allocated dollars and manpower resources to achieve those goals through its:

- CD loans and investments;
- banking products to assist small business owners and LMI individuals;
- financial support of non-profit CD organizations through cash donations;
- active participation and leadership in providing financial management and oversight of these organizations whose purpose includes community services and economic development;
- participation in local, state, and federal lending and grants programs to facilitate economic development and affordable housing.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), in determining a CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.