



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 5, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Citizens National Bank
Charter Number: 12594

182 Main Street
Putnam, CT 06260

Office of the Comptroller of the Currency

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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 Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The primary factors supporting the overall rating are:

- CNB's loan-to-deposit ratio is reasonable given the size, financial condition, the assessment area (AA) credit needs, and relevant competitive factors;
- The bank originated a substantial majority of its loans within the AA;
- The distribution of loans reflects reasonable penetration among borrowers of different incomes and businesses of different sizes;
- The geographic distribution of loans reflects excellent dispersion among geographies of different incomes; and
- The bank's level of community development (CD) activities demonstrates adequate responsiveness to the community development needs in the AA given the bank's capacity and CD opportunities within the AA.

Scope of Examination

The Citizens National Bank (CNB) Community Reinvestment Act (CRA) performance was evaluated under the Intermediate Small Bank procedures, which included a lending test and a CD test. The lending test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities. We used bank prepared reports and sampled loan data from January 1, 2009 to December 31, 2011 to determine the bank's lending performance. The CD test evaluates the bank's responsiveness to CD needs in its AA through CD loans, investments, and services. The assessment period for CNB's CD activities is also January 1, 2009 to December 31, 2011.

CNB's primary products are home mortgage loan products and business loans, which is in line with the bank's business strategy. Home mortgage loan products include home purchase, home improvement, and home refinance loans. The bank is not a Home Mortgage Disclosure Act (HMDA) reporter given that the bank is not located in a Metropolitan Statistical Area (MSA.) We sampled loans from both the home loan and commercial loan portfolios and found the bank's data to be reliable for CRA examination purposes. As a result, we utilized the bank's internal data to test for CRA. CD loans, investments, and services submitted by bank management were also verified to ensure they met the regulatory definition of community development.

Description of Institution

Citizens National Bank (CNB) is an intrastate community bank headquartered in Putnam,

Connecticut. As of December 31, 2011, CNB had total assets of \$340.5 million and net Tier 1 capital of \$33.7 million. The community bank is a wholly owned subsidiary of Citizens National Bancorp, Inc., a one-bank holding company. The last CRA performance evaluation was dated April 16, 2009 as a small bank and received a “Satisfactory” rating. Due to the growth in the bank’s asset size, the bank was assessed as an intermediate small bank for the current evaluation. Since the previous evaluation, the Board and management appointed a new CRA Officer to develop policies and procedures to ensure appropriate independent reviews. There have been no additional changes to CNB’s corporate structure, including merger or acquisition activities. The bank does not have any legal, financial, or other factors that will impede its ability to help meet the credit needs of its Assessment Area (AA).

In addition to the main office in Putnam, CNB has four branches located in Northeast Connecticut in the towns of Thompson, Woodstock, Killingly, and Brooklyn. There were no branch closings since the last CRA examination. The main office and branches are all full service banking offices and each supports an automated teller machine (ATM). CNB has two remote ATMs located in Day Kimball Hospital and Gerardi Insurance Services, Inc., both located in Putnam. ATMs are available on a 24-hour basis. All offices have normal business hours during the week and also offer Saturday lobby and drive up hours.

As of December 31, 2011, total bank assets include net loans of \$93.2 million and total investments of \$213.5 million. Total deposits amount to \$198.0 million. Net loans represent 27.4 percent of total assets and 47.1 percent of total deposits. The loan portfolio is comprised of 47.3 percent in 1-4 family real estate loans and 49.4 percent in commercial and commercial real estate loans. Core deposits total \$183.6 million and represents 92.7 percent of total deposits. Core deposits are comprised of savings deposits, time deposits below \$250 thousand, demand deposits, money market deposits, and ALL NOW & ATS accounts. Brokered deposits of \$6.5 million are not considered core deposits.

Loan Portfolio Summary by Loan Product (<i>in thousands</i>)		
December 31, 2011		
Loan Category	% Outstanding	\$ Outstanding*
1-4 Family Real Estate Loans	47.3%	\$ 45,337
Commercial and Commercial Real Estate Loans	49.4%	\$ 47,360
Individual Loans	2.0%	\$ 1,866

*Information taken from Call Reports for 4Q2011

Deposit Summary by Deposit Products (<i>in thousands</i>)		
December 31, 2011		
Deposit Category	% of Core Deposits	\$ of Deposits
Savings Deposits	51.2%	\$97,405
Time Deposits below \$250 thousand	27.2%	\$51,722
Demand Deposits	9.8%	\$18,657
Money Market Deposit Accounts	8.9%	\$16,994
ALL NOW & ATS Accounts	2.8%	\$5,359

*Information taken from Call Reports for 4Q2011

The bank offers a variety of traditional retail deposit products, mortgage, and commercial loans. CNB offers a nonprofit checking account for the deposit needs of not-for-profit organizations. The bank’s internet website, www.cnbct.com, provides detailed information on the products and services offered for both consumers and businesses.

Description of Assessment Area

The Citizens National Bank has one Assessment Area (AA) within the state of Connecticut. The AA includes the following townships: Putnam, Woodstock, Thompson, Eastford, Pomfret, Killingly, Brooklyn, and Hampton. These townships are part of the Windham County Non-MSA. The Windham County Non-MSA contains a total of 25 census tracts, and the bank designated 12 census tracts it could reasonably service. The AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

Windham County is located in Northeastern Connecticut. The area includes rural sections and older homes with many long-time homeowners. The top five employers in Windham County are: Day Kimball Healthcare, Frito-Lay Inc, Lowe’s Distribution Center, Windham Hospital, and Windham Public School.

Citizens National Bank Non-MSA

Demographic Information for Full Scope Area: Citizens National Bank Non-MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	12	0.00	33.33	66.67	0.00	0.00
Population by Geography	55,920	0.00	37.93	62.07	0.00	0.00
Owner-Occupied Housing by Geography	15,253	0.00	32.20	67.80	0.00	0.00
Business by Geography	5,790	0.00	34.99	65.01	0.00	0.00
Farms by Geography	224	0.00	13.84	86.16	0.00	0.00
Family Distribution by Income Level	15,022	21.38	21.84	26.01	30.77	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	6,492	0.00	45.75	54.25	0.00	0.00
Median Family Income HUD Adjusted Median Family Income for 2011 Households Below Poverty Level		61,239 80,700 6%		Median Housing Value Unemployment Rate (2000 US Census)		121,872 3.07%

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2000 US Census and 2008 HUD updated MFI

According to the Bureau of Labor Statistics, the unemployment rate in Windham County decreased from 10.5% in February 2011 to 9.7% in January 2012. The county's unemployment rate exceeds both state and national levels. The Connecticut state unemployment rate decreased from 9.2% in February 2011 to 7.8% in February 2012 and the national unemployment rate decreased from 9.0% in February 2011 to 8.3% in February 2012.

There are twelve census tracts (CTs) in the AA. Four CTs are moderate-income (33%), and eight CTs are middle-income (67%). There are no low-income or upper-income tracts in the AA.

The 2000 U.S. Census reported the total population of the AA at 55,920. The 2000 median family income was \$61,239, and the 2011 HUD updated median family income was 80,700. Within the AA, there are 15,022 families. Approximately 21.38%, of the families are low-income, 21.84% are moderate-income, 26.01% are middle-income, and 30.77% are upper-income. Approximately 6.49% of the households are below the poverty level. The median cost of housing in the AA is \$121,872.

According to the 2011 business demographics, there are a total of 5,790 businesses in the AA. Approximately 73% of the businesses reporting have revenues less than \$1million; approximately 3% have revenues greater than \$1million, and the revenue was not reported for approximately 25% of the businesses. Approximately 35% of businesses are located in moderate-income geographies and 65% are located in middle-income geographies.

Competition in the AA is strong. According to the June 30, 2011 FDIC Summary of Deposit Market Share Report, CNB was ranked fourth out of ten institutions in the Windham County non-MSA with 13.01% deposit market share. Savings Institute Bank and Trust Company is ranked first with seven offices inside the local market and a 20.67% deposit market share. Other financial institutions include: Putnam Bank with three offices and 18.24% deposit market share, First Niagara Bank NA with six offices and 14.81% deposit market share, Bank of America with four offices and 11.33% deposit market share, Liberty Bank with two offices and 8.59% deposit market share, Jewett City Savings Bank with 3 offices and 6.17% deposit market share, Peoples United Bank with 3 offices and 4.06% deposit market share, RBS Citizens National Association with 1office and 2.15% deposit market share, an Eastern Federal Bank with 1office and 0.975 deposit market share.

According to the 2010 Peer Mortgage Data, 172 lenders originated HMDA loans in the AA. Bank of America, N.A. ranked first with a market share of 11.79%. CNB was not ranked among its peers because it is not a HMDA reporter. Other competitors consisted of large national banks and mortgage companies, large regional banks, local community banks, and mortgage brokers with nationwide sources of funding.

As part of our CRA examination, we interviewed an executive member of a local community organization to discuss the economic conditions, community credit needs, opportunities for the bank to participate in, and the bank's level of community involvement within the AA. The organization we contacted is a non-profit business group that promotes economic development in the local area. According to our contact, credit opportunities are primarily centered in supporting local small businesses and creating, and maintaining permanent jobs in the community. Supporting local businesses, through credit needs, will aid in creating jobs for individuals as the area is comprised of small, rural communities. Our contact noted that a majority of the financial institutions in the area are active in their organizations and have participated and sponsored several of their projects. CNB is well perceived by the community as an involved institution by supporting organizations financially and their staff donating time by giving back to the community.

Conclusions with Respect to Performance Tests

LENDING TEST

The bank's performance under the lending test in the AA is rated "Satisfactory." CNB's quarterly average net loan-to-deposit ratio is reasonable and the bank originated a substantial majority of its loans within the bank's AA. The distribution of loans reflects reasonable penetration among borrowers of different incomes and businesses of different sizes. The geographic distribution of loans reflects excellent dispersion among geographies of different incomes.

Loan-to-Deposit Ratio

CNB's loan-to-deposit (LTD) ratio is reasonable and meets the standard for satisfactory performance. The quarterly average net LTD ratio over the ten quarters since the last CRA examination is 52.19%. The net LTD ratio of domestic commercial banks with assets between \$100M and \$400M in the state of Connecticut is 76.96% during the same ten quarters. CNB's quarterly average net loan-to-deposit ratio has been decreasing since the prior CRA examination, and has been under 50% since March 31, 2011. This declining loan-to-deposit trend is a result of the current state of the local economy, which has resulted in weak loan demand. Secondly, the bank has increased the level of mortgages sold in the secondary market to better manage their balance sheet and interest rate risk. In 2010, CNB sold 57 loans totaling \$8.6 million and in 2011, the bank sold 29 loans totaling \$4 million in the secondary market. Additionally, the bank's total loan portfolio has declined over the last ten quarters due to an increased level of problem loans that have been charged-off or refinanced by other financial organizations.

Lending in Assessment Area

CNB originated a substantial majority of its loans inside the AA and meets the standard for outstanding performance. CNB originated 88.3% by number and 89.7% by dollar inside the AA during the evaluation period.

The table below shows the number of loans and dollar of loans for both home loans and business loans originated inside and outside the bank's AA.

Table 1 - Lending in Windham County Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Total Home Loans	295	92.7	23	7.3	318	\$33,203,490	91.8	\$2,971,548	8.2	\$36,175,038
Total Business Loans	226	83.1	46	16.9	272	\$44,734,751	88.8	\$5,937,029	11.2	\$50,671,780
Combined	521	88.3	69	11.7	590	\$77,938,241	89.7	\$8,908,577	10.3	\$86,846,818

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

The distribution of lending to borrowers of different income levels and businesses of different sizes in the assessment area reflects reasonable penetration.

Home Loans

The distribution of home loans to low-and moderate-income families reflects reasonable penetration. The percentage of home loans made to low income borrowers is lower than the percentage of low-income families in the AA. However, it is difficult for low-income borrowers to afford housing in the AA. Based on the 2000 US Census data, the median cost of housing in the AA is \$121,872. The 2011 HUD updated median family income is \$80,700, which means that low-income borrowers earn less than \$40,350. Additionally, 6% of households are below the poverty level. Based on these statistics it would be difficult for low-income borrowers to purchase housing in the AA. Therefore, we placed more emphasis on the bank’s moderate-income performance. The percentage of home loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

The table below shows the distribution of home loans among borrowers of different income levels as compared to the percent of families in each income category:

Borrower Distribution of Residential Real Estate Loans in Windham County 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 Loans	21.38	9.00	21.84	36.00	26.01	20.00	30.77	36.00

Source: 2000 U.S. Census data.

Business Loans

CNB’s distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. During the evaluation period, the bank originated 66.7% of loans by number and 42.2% of loans by dollar to small businesses. Such performance is lower than the demographic data, which indicates 72.6% of businesses in the AA are small businesses.

The table below compares results of business loans originated in the AA during the assessment period to the AA’s actual percentage of businesses by business revenue size:

Borrower Distribution of Loans to Businesses in Windham County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	72.6%	2.7%	24.7%	100%
% of Bank Loans in AA by #	66.7%	33.3%	n/a	100%
% of Bank Loans in AA by \$	42.2%	57.9%	n/a	100%

Source: 2011 Business Geographic Data

Geographic Distribution of Loans

Overall, CNB geographic distribution of loans reflects excellent dispersion throughout census tracts of different income levels. There are no low or upper income geographies in the assessment area.

Home Loans

CNB’s geographic distribution of home loans reflects excellent dispersion among census tracts of different income levels. The percentage of home purchase, home improvement, and home refinance loans made in moderate-income geographies exceeds the percentage of moderate-income housing in these geographies.

The table below details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level.

Geographic Distribution of Home Loans in Windham County 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	0.0	0.0	32.2	35.0	67.8	65.0	0.0	0.0
Home Improvement	0.0	0.0	32.3	32.0	67.8	68.0	0.0	0.0
Home Refinance	0.0	0.0	32.2	39.0	67.8	61.0	0.0	0.0

Business Loans

CNB’s geographic distribution of business loans reflects excellent dispersion among census tracts of different income levels. During our evaluation period, the bank originated 41.6% of business loans to businesses located in moderate-income census tracts, which exceeds the percentage of businesses located in moderate-income census tract. The bank originated 58.4% of business loans to businesses located in middle-income census tracts. Such performance is slightly lower than the geographic data, which indicates 65.8% of businesses are located in middle-income census tract.

The table below compares results of the reviewed commercial loans to the AA’s percentage of businesses in each census tract income level.

Geographic Distribution of Loans to Businesses in Windham County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/Farms	% of Number of Loans	% of Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of Businesses/Farms	% of Number of Loans
Business Loans	0.00	0.00	34.20	41.56	65.80	58.44	0.00	0.00

Source: 2000 Census Data

Responses to Complaints

CNB did not receive any complains about its performance in helping to meet the credit needs in the bank’s AAs during this evaluation period.

COMMUNITY DEVELOPMENT TEST

CNB's level of responsiveness to community development (CD) needs through CD loans, services, and qualified investments originated and offered in the Windham County AA meet the standard of adequate responsiveness.

Number and Amount of Community Development Loans

The amount of CD loans originated is adequate. The bank originated a total of five CD loans equaling \$2.45 million during the assessment period. All CD loans considered meet the criteria outlined in interagency guidance.

Proceeds of one loan, totaling \$1.5 million, was used to construct a healthcare facility that provides services to low-and moderate-income (LMI) individuals. Proceeds of two of the loans, totaling \$900 thousand, were used to renovate a nursing facility for LMI individuals. The remaining two loans, totaling \$50 thousand, were made to a not-for-profit organization that provided housing and vocational services to disabled individuals. CD loans originated in the AA meet identified needs to create affordable housing and provide services to LMI individuals. Given the limited amount of LMI geographies and individuals, the amount of CD loans originated in the AA meets the standard for adequate performance.

Number and Amount of Qualified Investments

The level of qualified investments (QI) is adequate. The total number and amount of QI is 77 investments totaling \$301.8 thousand. All qualified investments considered meet the criteria outlined in interagency guidance.

Investments primarily support community services including healthcare for LMI individuals, scholarships, shelters for the homeless, food pantries, and organizations that create affordable housing. Other investments benefit organizations that provide shelters for homeless and disabled individuals, financial literacy services, healthcare services for the community, and support the sustainability of economic development. QI originated in AA meet the needs to create affordable housing and provide services to LMI individuals. Given the limited amount of LMI geographies and individuals, the amount of QI originated in the AA meets the standard for adequate performance.

Extent to Which the Bank Provides Community Development Services

The level of CD services offered in the AA is adequate. The total number of CD services offered is 22. All CD services considered meet the definitions outlined in interagency guidance. Each of the qualified CD services benefitted the Windham County AA. CD services include providing technical assistance to nonprofit organizations that promote the economic and development needs of the community, improving LMI individual's access to financial services, and financial literacy education. Other CD services include participation in the rural federal housing service loan programs. CD services offered increase the provision of financial services to LMI individuals directly through participation in governmental loan programs and indirectly through education and technical assistance provided to CD organizations. CD services offered in the AA meets the standard for adequate performance.

Responsiveness to Community Development Needs

CNB demonstrates adequate responsiveness to the community development needs of its AA. This is appropriate considering the needs, opportunities, and the performance context surrounding the bank.

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.