



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 17, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Citizens National Bank
Charter Number 12594**

**182 Main Street
Putnam, CT 06260**

**The Office of the Comptroller of the Currency
New England Field Office
20 Winthrop Square, Suite 200
Boston, MA 02110**

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 in Putnam, CT is satisfactory given its size, financial condition, and the credit needs of its assessment area. The primary factors supporting the bank's overall rating include:

- A substantial majority of the bank's loans, 94% by number and 95% by dollar amount, are within the designated assessment area.
- Residential mortgage lending products in the bank's Non-MSA census tracts reflect a reasonable distribution of loans to low- and moderate-income borrowers.
- Home improvement loans originated in the bank's MSA census tracts reflect a reasonable distribution of home improvement loans to low-income borrowers and excellent penetration to moderate-income borrowers.
- The distribution of loans to small businesses in the bank's Non-MSA census tracts reflects excellent penetration of loans to small businesses.
- The average loan-to-deposit ratio is reasonable given the lending opportunities, weakened economy, and intense competition for loans in the bank's assessment area.

DESCRIPTION OF INSTITUTION

Citizens National Bank (CNB) is a wholly owned subsidiary of Citizens National Bancorp, a one-bank holding company with total assets of \$216 million. CNB has its main office in Putnam, Connecticut. In addition, the bank operates four branches located in the northeast Connecticut towns of Thompson, Woodstock, Killingly, and Brooklyn. The branches are full service banking offices and each supports an automated teller machine (ATM). No branches have opened or closed since our last CRA examination dated June 1, 1998, when the bank received a satisfactory rating. CNB faces no impediments, legal or otherwise, that hinder its ability to help meet the credit needs of its assessment area.

CNB offers a wide variety of credit and deposit products to meet consumer and commercial banking needs. The bank's Internet website, www.cnbt.com, provides detailed information on products and services for both consumers and businesses. Deposit product offerings are standard with the addition of touch-tone banking and on-line banking with bill payment options.

CNB is primarily a residential and commercial real estate lender. The bank offers a variety of consumer mortgages for home purchase, refinance, home equity, and home improvement loans for one-to-four family residences. As of December 31, 2002, the bank had \$73 million in total loans and \$137 million in total deposits, representing 34% and 63% of total assets, respectively. See **Table 1** for detailed information on the composition of the bank's loan portfolio.

Table 1. Loan Category	\$ (000)	%
Commercial Real Estate Loans	32,078	44%
Commercial Loans	6,922	9%
Residential Real Estate Loans	32,460	44%
Consumer Loans	1,915	3%
Total	73,375	100%

Data source: Schedule RC-C Loans and Lease Financing Receivables in the 12/31/2002 Call Report.

DESCRIPTION OF CITIZENS NATIONAL BANK'S ASSESSMENT AREA

CRA regulations require a financial institution to identify one or more assessment areas (AA) in which it intends to meet that area's credit needs. CNB's AA meets the technical and regulatory requirements as defined by the regulation. Bank management defined the bank's AA to include the following towns in Windham County: Brooklyn, Danielson, Eastford, Hampton, Killingly, North Grosvenordale, Pomfret, Putnam, Thompson, and Woodstock.

The AA coincides with the southern edge of one metropolitan statistical area (MSA) that includes two middle-income census tracts. The towns of North Grosvenordale and Thompson are in the Worcester, Massachusetts MSA. One of the bank's branches is located in Thompson. The Home Mortgage Disclosure Act (HMDA) requires banks with branches in an MSA to gather statistical data on residential mortgage loans and file annual disclosures. The remaining CNB branches are not located in an MSA and do not have the same disclosure requirements.

The bank's AA includes several old mill towns in northeastern Connecticut. The area includes rural sections and older homes, many with long-time homeowners. The Windham County area has some manufacturing but many jobs in this sector have been lost permanently as firms either relocated, cut positions, or sent manufacturing jobs overseas. The unemployment rate in Windham County has increased from 4.5% at year-end 2002 to 6.1% in the first quarter of 2003. The county's unemployment level exceeds state and national levels as the Connecticut economy continues to deteriorate.

A community contact was made to gain a better understanding of the credit needs in the AA. The contact was with a local agency that offers housing rehabilitation loan programs to low- and moderate-income individuals. According to our contact, the most significant credit needs in the assessment area are affordable housing, home improvement loans, and small business lending. Economic difficulties in the AA were identified primarily due to a listless economy and the loss

of jobs in the manufacturing sector. Banks in the AA were identified as meeting the primary credit needs of the community.

Demographic information of the CNB AA is broken out by MSA and Non-MSA census tracts in **Table 2**. There are twelve census tracts in the AA. Ten census tracts are middle-income. Two census tracts are moderate-income and both are located in Putnam, CT. Although the AA has no low-income census tracts, approximately 20% of the families in both the MSA and Non-MSA sections of the AA are low-income.

Table 2. DEMOGRAPHIC & ECONOMIC CHARACTERISTICS OF AA		
	Non-MSA	MSA
Population	43,603	8,668
Number of Families	11,794	2,447
Number of Households	16,221	3,186
Geographies		
Number of Census Tracts	10	2
% Low-Income Census Tracts	0%	0%
% Moderate-Income Census Tracts	20%	0%
% Middle-Income Census Tracts	80%	100%
% Upper-Income Census Tracts	0%	0%
Median Family Income (MFI)		
1990 MFI for AA	\$39,447	\$38,541
2002 HUD-Adjusted MFI	\$59,900	\$58,400
Economic Indicators		
2002 Median Housing Value	\$129,430	\$122,278
Median Age of Housing	44 years	44 years
Weighted Average Monthly Gross Rents	\$488	\$475
% Of Households Below Poverty Level	7%	6%
Percentage of Families In All Tracts by Income		
Low-Income Families	20%	21%
Moderate-Income Families	22%	21%
Middle-Income Families	27%	25%
Upper-Income Families	31%	33%

Source Date: 1990 Census Data, 2002 HUD Data.

Both MSA and Non-MSA areas have approximately 15% of the population over the age of 65 and in retirement. Management stated many homes in the AA are occupied by some of the original owners of homes built since 1958. The older homes present opportunities for financial institutions to make home improvement and home equity loans. The Non-MSA portion of the AA has a larger proportion of rental units at 31% of total housing units versus 21% in the MSA census tracts.

Monthly rental costs that exceed 30% of income are higher in the Non-MSA area at 9% of total housing units compared with 5% in the MSA area. Affordable housing for low- and moderate-income families remains a concern in the bank's AA in both the MSA and Non-MSA sections.

At least nine other institutions operate within the bank's AA and compete for loans and deposits. Competition in the bank's AA includes Putnam Savings Bank, WestBank, Fleet Bank, Peoples Bank, Savings Institute, Jewett Savings Bank, Citizens Bank of Connecticut, and the Savings Bank of Manchester. CNB has 15% of deposit market share based on Federal Deposit Insurance Corporation (FDIC) reports as of June 30, 2002. Putnam Savings Bank has 22% and WestBank has 17% deposit market share. Windham County holds less than 2% of FDIC insured deposits in the state of Connecticut.

Competition is intense for loans and exists not only from banks but also from credit unions and mortgage companies including Charter Oak Credit Union, GMAC Mortgage Company, and First Eastern Mortgage Company.

CNB management considers Putnam Savings Bank and Jewett City Savings Bank as the most similar in size and product offerings. These banks also operate offices further south in Windham County, in the more populous New London Multi-state MSA. CNB offices do not extend south into the New London MSA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The bank's lending performance meets the standards for a satisfactory rating. The lending performance is based on five performance criteria that are described in this section. We evaluated the volume of lending since the previous CRA performance evaluation in June 1998. The heaviest volume of loan originations was in residential mortgage products in both dollar and volume. Commercial real estate was the second heaviest in loan originations. We focused our lending sample on residential mortgages (home improvement and refinance mortgages) and commercial real estate.

The residential mortgage loan sample of 20 home improvement loans and 20 residential mortgage refinance loans were randomly selected from HMDA reports the bank filed for both MSA and Non-MSA sections of the AA. The commercial real estate sample of 32 loans was obtained from internal bank reports. The samples were selected for the period of April 1, 1998 to December 31, 2002 and were first used to assess the volume of lending inside the AA.

We took the loans identified as being inside the bank's AA and divided them into separate loan samples (one MSA sample and one Non-MSA sample). We then determined the distribution of borrowers by income and revenues in each sample. We compared the results of both samples with AA demographics to determine the bank's level of lending to low- and moderate-income borrowers, and businesses with revenues of less than \$1 million.

Loan-to-Deposit Ratio

CNB's loan to deposit (LTD) ratio is low and has slowly declined over the last 19 quarters. The quarterly average LTD ratio was 57% and at December 31, 2002 was 54%. CNB's average LTD ratio was lower than peer banks in Connecticut with assets under \$250 million. Peer banks' LTD ratios ranged from 65% to 80% for a similar period. The peer banks' average LTD ratio over the last 17 quarters (2 oldest quarters were unavailable) was 70% or 13 basis points above CNB average. As previously stated, competition in the bank's AA is intense with nine banks as well as credit unions and mortgage companies vying for mortgage loans.

Several factors have contributed to the bank's declining LTD ratio. The AA underwent changes in deposit market share when WestBank (chartered in Massachusetts) acquired all branches of Cargill Bank. The new bank was aggressively competing for loans. During this time, both CNB and Putnam Savings Bank picked up deposit market share while large banks lost deposit market share in the AA. The increase in deposit levels continued in 2000 and 2001 as investors began pulling funds out of the stock market and mutual funds and placing deposits into banks to preserve principal. The impact of the events above was a decline in the LTD ratio. As the economy improves, management anticipates some deposits will shift back to financial markets.

In addition, other banks in CNB's AA have offices in more populous communities and MSAs, enabling them to capture more loan demand. The bank's LTD ratio is considered reasonable considering the intense competition for loans, recent inflows of deposits from financial markets to banks, and the lack of CNB branches in more populous communities.

Lending in Assessment Area

A substantial majority of the bank's loans were made to borrowers within the AA. We reviewed the distribution of loan originations for CNB's primary loan categories for the time period beginning April 1, 1998 to December 31, 2002. Loan products sampled and the results of our analysis are detailed in **Table 3**. We concluded that 94% by number and 95% by dollar volume of loans were within the bank's AA.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
						(000s)		(000s)		(000s)
Commercial RE	30	94%	2	6%	32	5,669	93%	428	7%	6,097
Home Improve.	20	100%	0	0%	20	1,329	100%	0	0%	1,329
Mtg. Refinance	18	90%	2	10%	20	1,600	96%	70	4%	1,670
Totals	68	94%	4	6%	72	8,598	95%	498	5%	9,096

Source: Sample of home improvement loans, residential mortgage refinancing, and commercial real estate loans.

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

The bank's lending to low- and moderate-income individuals meets standards for a satisfactory rating. The CRA regulation requires a separate assessment of lending to borrowers and businesses of different income levels for each MSA and Non-MSA area. Our analysis was based on the same time period stated previously and on loans originated in the bank's AA. Refer to **Table 4** for the results of residential mortgage lending to different income levels in the Non-MSA area. Refer to **Table 5** for results of residential mortgage lending to different income levels in the MSA area.

Non-MSA Residential Loans

Table 4 - Borrower Distribution of Residential Real Estate Loans in Citizens National Bank's Non-MSA Census Tracts (4-1-1998 to 12-31-2002)								
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
Mtg. Refinance	20%	15%	22%	20%	27%	40%	31%	25%
Home Improve.		20%		0%		35%		45%

Source: Sample of home improvement loans, residential mortgage refinancing, and U.S. Census data.

Table 4 reflects the results of a sample of 20 refinance loans and 20 home improvement loans. Lending to low-income families is reasonable. Home improvement loans equaled and refinance loans were near to the Non-MSA demographics for low-income families. Residential mortgage refinance lending to moderate-income families is also reasonable, as it nearly equals the Non-MSA demographics for moderate-income families. The home improvement sample reflected no loans to moderate-income families. Loans originated to low-income families reflect the bank's willingness to lend to low- and moderate-income groups. The absence of any moderate-income home improvement loans may be a function of the sample size.

MSA Residential Loans

Table 5 - Borrower Distribution of Residential Real Estate Loans in Citizens National Bank's Worcester, MA-MSA Census Tracts (4-1-1998 to 12-31-2002)								
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 Improve.	21%	15%	21%	30%	25%	10%	33%	45%

Source: Sample of home improvement loans, residential mortgage refinancing, and U.S. Census data.

Table 5 reflects the results of a sample of 20 home improvement loans. The volume of mortgage

refinancing in the two Worcester MSA census tracts was insufficient to obtain a minimum sample of 20 loans. Based on the home improvement sample, lending to low-income families is reasonable with results only slightly below MSA demographics. Home improvement loans to moderate-income families exceeded MSA demographics and reflect an excellent penetration to moderate-income families.

Non-MSA Distribution of Loans to Businesses

Table 6 – Borrower Distribution of Loans to Businesses in Citizens National Bank’s Non-MSA Census Tracts (4-1-1998 to 12-31-2002)		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% Of AA Businesses*	76%	6%
% Of Bank Loans in AA by #	83%	17%
% Of Bank Loans in AA by \$	33%	67%

*Source: Loan sample; Dunn and Bradstreet data. * 18% of Non-MSA AA businesses did not report revenue data*

Table 6 reflects excellent penetration of CNB’s lending activity to small businesses. The number of loans originated to small businesses was 25 or 83% of our sample of 30 loans and exceeded area demographics based on the number of businesses reporting revenues of less than \$1 million. The sample also reflects a significantly smaller percentage based on dollar volume is originated to small businesses. Our sample included 5 loans or 17% of the sample of 20 loans with revenues over \$1 million. These five loans were originated to businesses with revenues from \$1.2 to \$5.2 million and the loan size comprised a larger dollar percentage of loans in the sample. A further refinement of the sample reveals that 8 loans, or 27% of the sample, were made to businesses with annual revenues less than \$100 thousand, and fourteen loans, or 47% of the sample, had revenues between \$100 thousand and \$500 thousand. The bank is an active lender to small businesses.

MSA Distribution of Loans to Businesses

Table 7 – Borrower Distribution of Loans to Businesses in Citizen National Bank’s MSA Census Tracts (4-1-1998 to 12-31-2002)		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% Of AA Businesses*	78%	4%

*Source: Loan sample; Dunn and Bradstreet data. * 18% of MSA-AA businesses did not report revenue data*

Table 7 reflects the business demographics of the two census tracts of CNB’s AA that are located in an MSA. There are 303 businesses located in the two census tracts with 75% reflecting revenues of less than \$500 thousand and 68% with less than 5 employees. The majority of the businesses are single locations or possibly from individuals’ homes. We were unable to find a sufficient volume of business loans to determine the volume of lending to small businesses. Management stated there is nominal commercial loan activity requested from the two middle-income census tracts in this MSA.

Geographic Distribution of Loans

An analysis of the geographic distribution of loans would not be meaningful. The bank's assessment area consists of twelve census tracts, two are moderate-income and the remaining ten are middle-income census tracts.

Responses to Complaints

Neither the bank nor the OCC received CRA related complaints on CNB since the prior examination of June 1, 1998.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.