



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 23, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Citizens National Bank
Charter Number 5484**

**118 South Houston Street
Cameron, TX 76520**

**Comptroller of the Currency
ADC - Austin
8310 Capital Of Texas Highway North Suite 250
Austin, TX 78731**

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.

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INSTITUTION'S CRA RATING

This institution is rated “**Satisfactory.**”

Citizens National Bank's (CNB) lending performance is satisfactory given its size, financial condition, and known credit needs in its assessment area (AA). CNB's performance under these performance criteria meets the standard for satisfactory performance.

- CNB's average loan-to-deposit (LTD) ratio of 30%, although slightly below local peer group averages, is reasonable when considering the nature of its community, customer base, loan demand, lending opportunities, competition, and known credit needs in the AA.
- A high percentage (83%), of CNB's loans are within its AA.
- CNB has demonstrated a good willingness to extend loans to individuals of varying incomes and to businesses and farms of different sizes. Lending to low- and moderate-income (LMI) families meets the standards for satisfactory performance.
- There have been no complaints with respect to CNB's CRA performance.

DESCRIPTION OF INSTITUTION

CNB is headquartered in Cameron, Texas, approximately 75 miles northeast of Austin, Texas. Historically, CNB has one branch office in Rockdale, Texas, which is about 15 miles south of Cameron. CNB also provides trust services. Total trust assets approximate \$57 million. CNB opened in 1900. One family owns the majority of CNB.

On August 2, 2002, CNB consummated the purchase of two International Bank of Commerce branch locations adjacent to its AA, and one location in Rockdale, part of the bank's current AA. As a result, the bank's total assets have increased from \$124 million to \$222 million, and the AA will expand into Lee County with its new branch in Giddings, Texas, and in Williamson County with its new branch in Taylor, Texas. With the addition of these branches, the bank now offers four full service locations with drive-in facilities and three ATM locations.

The bank's primary focus is to promote economic development in its AA through its lending programs. CNB's market niche is residential, small business, consumer, and agricultural loans. The table below reflects a detailed breakdown of CNB's loan portfolio as of June 30, 2002.

Loan Category	\$(000)	%
Construction Loans	30	0.08
Real Estate (RE) Farmland	1,741	4.42
RE Residential (1-4)	2,914	7.40
RE Nonfarm Nonresidential	19,094	48.47
Agricultural Production	6,726	17.07
Commercial and Industrial	1,977	5.02
Consumer	2,596	6.59
Obligations of Municipalities	2,167	5.50
Other	2,092	5.31
Lease Financing Receivables	57	0.14
Total	39,394	100%

CNB faces competition from area banks, credit unions, finance companies, and local investment brokerage firms. Based on its financial condition, the local economy, product offerings, competition, and prior performance, CNB has the ability to meet the various credit needs in its community. At the last CRA examination in March 1998, the bank's CRA rating was "Satisfactory." No legal impediments or other factors hinder CNB's ability to provide credit.

DESCRIPTION OF ASSESSMENT AREA

CNB has designated its AA as 8 census tracts that are all in Milam County and 1 tract in Falls County. The AA includes the cities of Cameron, Rockdale, Thorndale, Buckholts, Milano, Burlington, and Rosebud. The 1990 census data indicates that 7 tracts are categorized as middle-income and 2 as upper-income. These areas have a census population of 26,005. The following table further describes the bank's AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	7,014
Number of Households	9,791
<i>Geographies</i>	
Number of Census Tracts/BNA*	9
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	0.00%
% Middle-Income Census Tracts/BNA	77.78%
% Upper-Income Census Tracts/BNA	22.22%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$25,203
2001 HUD-Adjusted MFI	\$35,800
<i>Economic Indicators</i>	
Unemployment Rate	3.28%
1990 Median Housing Value	\$38,126
% of Households Below Poverty Level	24.87%

*BNA = Block Numbering Area

The local economy is considered stable. Primary industries within the AA include coal/lignite mining, agricultural production, cattle ranching, light manufacturing, retail services, and health care related business. Alcoa (an aluminum products plant) is the largest employer in the county and is located near Rockdale. Other major employers include: Royal Seating, Texas Utilities, the hospital, nursing homes, the local school system, and the county government. CNB has conducted independent market surveys in the past that indicate that there is a good number of residents that work outside of these communities, particularly in Cameron. CNB is in the process of redefining its AA with regards to the addition of the two new branches previously mentioned.

In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted a local city official during this examination. The contact stated that CNB is active in the community and responsive to credit needs. This contact also stated that the bank's AA is beginning to experience growth with the additions of new businesses such as restaurants, hotels, and community colleges.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

CNB's LTD ratio is satisfactory, given its asset size, financial condition, and the lending opportunities within its AA. The LTD ratio during the 17 quarters since our last examination has steadily increased from 27% to 38%. To better understand the bank's performance, we conducted an LTD analysis on three other similarly situated banks. The LTD ratios for these banks ranged from 38% to 46%, and the average LTD was 42% over the same period.

Institution	Assets*	Average LTD Ratio
FNB Cameron	133MM	40.49
FNB Giddings	80MM	38.23
Buckholts State Bank	40MM	46.24
<i>Citizens NB Cameron</i>	<i>124MM</i>	<i>30.23</i>

* As of June 30, 2002

Lending in Assessment Area

A high percentage of CNB's loans are within its AA. An analysis of lending patterns within the AA was performed on a random sample of 25 of each of the bank's four primary loan products for a total of 100 loans reviewed. All loans reviewed were originated after the previous CRA examination. Our analysis indicates that approximately 83% of the number and 54% of the dollar volume of the bank's primary loan products originated within the AA. Although CNB has purchased several out-of-area commercial loans to enhance earnings performance, an adequate percentage of the bank's commercial loans are still within the bank's AA in terms of dollars and numbers. The following table provides details by product type.

TOTAL LOANS REVIEWED								
LOAN TYPE	In Assessment Area				Out Of Assessment Area			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Agricultural	21	84	775	85	4	16	140	15
Commercial	17	68	545	22	8	32	1,891	78
Consumer	23	92	90	85	2	8	16	15
Residential	22	88	1,131	94	3	12	77	6
Total Reviewed	83	83	2,541	54	17	17	2,124	46

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

The loan portfolio reflects a good distribution of loans to individuals of various income levels and to small business and farms. In order to assess CNB's performance in this area, we obtained income information from our sample of 20 residential real estate and 20 consumer loans in the bank's AA that originated since the prior CRA examination. We also obtained gross revenue information from our sample of business and agricultural loans in the AA. Our analysis indicates that CNB lends to all applicants, regardless of income category. As indicated in the chart below, CNB has a good distribution of consumer loans among LMI borrowers in relationship to the demographics of the AA. While the bank readily offers mortgage loan products, most lending that benefits LMI individuals is centered in consumer loans. The tables below summarize our analysis of lending activity in the AA to different income levels.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	25.5%		15.6%		15.9%		43.0%	
	% of Number	% of Amount						
Total	10.0	1.3	15.0	8.7	15.0	8.1	60.0	81.9

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	29.8%		15.7%		13.8%		40.6%	
	% of Number	% of Amount						
Total	50.0	32.9	25.0	42.3	20.0	17.4	5.0	7.4

CNB originates commercial and agricultural loans in a manner that exceeds area demographics. The bank’s distribution of loans to “small business and farms with revenues less than \$1 million” is reflective of CNB’s focus on providing loans that will enhance the local economy. The following tables reflect data from the review of 20 commercial and 20 agricultural loans originated since the prior examination.

BORROWER DISTRIBUTION OF LOANS TO BUSINESSES		
<i>Business Revenues</i>	<i>≤\$1,000,000</i>	<i>>\$1,000,000</i>
% of AA Businesses	93.74%	6.26%
% of Bank Loans in AA #	100.0	0.0
% of Bank Loans in AA \$	100.0	0.0

BORROWER DISTRIBUTION OF LOANS TO FARMS		
<i>Business Revenues</i>	<i>≤\$1,000,000</i>	<i>>\$1,000,000</i>
% of AA Farms ³	96.47	3.53%
% of Bank Loans in AA #	100.0	0.0
% of Bank Loans in AA \$	100.0	0.0

Geographic Distribution of Loans

As previously mentioned, all 9-census tracts located within CNB’s AA are classified as middle- or upper-income areas. Therefore, an analysis of loan distribution by geographic area would not be meaningful.

Responses to Complaints

No complaints relating to CRA performance have been received by CNB.

Fair Lending Review

CNB has not been subjected to a Fair Lending review. However, a review of complaint records and consumer files during this evaluation period provided no indication of disparate treatment.