



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 30, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Citizens National Bank
Charter Number: 5484

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Cameron, TX 76520

Office of the Comptroller of the Currency
Southern District
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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 the 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.”**Lending Test Rating: “Satisfactory”****Community Development Test Rating: “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 39%, although 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 (87%) of CNB’s loans is within its AA.
- CNB has demonstrated a willingness to extend loans to individuals of varying incomes and to businesses of different sizes. Lending to low- and moderate-income (LMI) families meets the standards for satisfactory performance.
- The geographic distribution of loans to moderate-income census tracts within the AA is reasonable, given the demographics of the AA.
- Community development (CD) performance demonstrates overall satisfactory responsiveness to the CD needs within the bank’s AA.

DESCRIPTION OF INSTITUTION

CNB’s headquarters is in Cameron, Texas, approximately 75 miles northeast of Austin, Texas. CNB has four branch offices. One full-service branch is located in the following Texas cities: Rockdale, Taylor, Giddings, and Pflugerville. Through these branches, the bank now offers five full service locations with drive-in facilities and automated teller machine (ATM) services at each location. CNB also provides trust services. Total trust assets approximate \$65 million. CNB opened in 1900. One family owns the majority of CNB.

CNB has total assets of \$324 million and an AA that spans five counties. The bank’s primary focus is to promote economic development in its AA through its lending programs. CNB’s market niche is residential, commercial, consumer, and agricultural loans.

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. No legal impediments or other factors hinder CNB’s ability to provide credit. At the last CRA examination in October 2007, the bank was examined utilizing Small Bank examination procedures, and the bank’s CRA rating was "Satisfactory." During this examination, we evaluated CNB’s CRA performance under the Intermediate Small Bank examination procedures, which include a lending test and a CD test.

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 following table reflects a detailed breakdown of CNB’s loan portfolio as of December 31, 2011.

Loan Category	\$(000)	%
RE Nonfarm Nonresidential	47,694	43.7%
Commercial and Industrial	17,354	15.9%
RE Residential (1-4)	12,101	11.1%
Real Estate (RE) Farmland	8,838	8.1%
Agricultural Production	6,913	6.3%
Construction Loans	5,632	5.2%
Consumer	3,564	3.3%
RE Multifamily (5 or more)	3,158	2.9%
Obligations of Municipalities	3,097	2.8%
Other	836	1.0%
Total	109,187	100%

DESCRIPTION OF ASSESSMENT AREA

CNB's AA includes 63 census tracts encompassing all of Falls, Milam, and Lee Counties, and portions of Travis and Williamson Counties. All 63 census tracts in the bank's AA are contiguous. CNB's AA does not arbitrarily exclude LMI geographies. The 11 census tracts located in Falls, Milam, and Lee Counties are not located in a Metropolitan Statistical Area (MSA). The 52 census tracts located in Travis and Williamson Counties are part of the Austin-Round Rock MSA.

Due to different median family income (MFI) levels, we segmented CNB's service area into both MSA and non-MSA AAs. Segmenting CNB's service area will provide more accurate results when analyzing the bank's lending to borrowers of different incomes and to businesses of different sizes. The two following tables contain specific demographic data for the MSA and non-MSA AAs.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF MSA – ASSESSMENT AREA	
Population	
Number of Families	80,469
Number of Households	103,409
Geographies	
Number of Census Tracts	52
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	4%
% Middle-Income Census Tracts	56%
% Upper-Income Census Tracts	40%
Median Family Income (MFI)	
2000 MFI for AA	\$59,438
2006 HUD-Adjusted MFI	\$69,600
2010 HUD-Adjusted MFI	\$73,800
2011 HUD-Adjusted MFI	\$74,900
Economic Indicators	
Unemployment Rate	2.0%
2011 Median Housing Value	\$124,251
% of Households Below Poverty Level	4.33%

The bank's MSA AA is comprised of 52 contiguous census tracts located in the northeastern portion of Travis County and the eastern portion of Williamson County. The population of the MSA AA is approximately 299 thousand. Based on the 2000 Census data, five census tracts are designated as moderate-income, thirty-one census tracts as middle-income, and sixteen tracts as upper income areas. There are no low-income census tracts in the MSA AA. Of the 103,409 households located within this AA, 0% is designated as low-income, 5% as moderate-income, 58% as middle-income, and 37% as upper-income households. Approximately 4% of the MSA AA households live below the poverty level. Communities located within this AA include: Granger, Taylor, Hutto, Pflugerville, Georgetown, Round Rock, and Cedar Park.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF NON-MSA – ASSESSMENT AREA	
Population	
Number of Families	11,586
Number of Households	15,987
Geographies	
Number of Census Tracts	11
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	73%
% Upper-Income Census Tracts	27%
Median Family Income (MFI)	
2000 MFI for AA	\$36,380
2006 HUD-Adjusted MFI	\$43,100
2010 HUD-Adjusted MFI	\$46,500
2011 HUD-Adjusted MFI	\$48,600
Economic Indicators	
Unemployment Rate	2.3%
2011 Median Housing Value	\$59,047
% of Households Below Poverty Level	15.5%

The bank's non-MSA AA is comprised of 11 contiguous census tracts encompassing all of Falls, Milam, and Lee Counties. The population of the non-MSA AA is approximately 43 thousand. Based on the 2000 Census data, three census tracts are designated as upper-income and eight census tracts as middle-income areas. The non-MSA AA does not contain any moderate- or low-income census tracts. Of the 15,987 households located within this AA, 0% is designated as low-income, 0% as moderate-income, 75% as middle-income, and 25% as upper-income households. Approximately 16% of the non-MSA AA households live below the poverty level. Some of the communities located within this AA include: Cameron, Rosebud, Giddings, and Rockdale.

The local economies in the aggregate AA are generally considered stable. Primary industries include coal/lignite mining, agricultural production, cattle ranching, light manufacturing, retail services, and health care related business. The following table lists the area's major employers.

MAJOR AREA EMPLOYERS	
Employer	Product
WalMart Supercenter	Retail
Renaissance Villa	Alzheimer home
Bland Construction	Construction
Brookshire Bros.	Grocery
Citizens National Bank	Banking facility
City of Rockdale	Municipality
Classic Bank	Banking Facility
Manor Oaks Nursing Center	Health Care
Veolia ES Industrial Services	Industrial
Perry & Perry Builders Inc.	Construction
Richards Memorial Hospital	Hospital
Rockdale Federal Credit Union	Financial
Rockdale ISD	Education
Rockdale Reporter	Commercial printing
Luminant	Electric power

*Rockdale Chamber of Commerce

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

CNB's LTD ratio is satisfactory. The LTD ratio during the 20 quarters since our last examination increased, ranging from the high thirties to low forties. The average LTD ratio is 39.5%. To better understand the bank's performance, we conducted an LTD analysis on CNB and five other similarly situated banks. The 20 quarter average LTD ratios for these banks ranged from 38% to 64%, and the average LTD was 49%. CNB's LTD ratio has increased by 5.73% since the last CRA examination in June 2007. While CNB's LTD ratio is the second lowest in the comparative group, it continues to be satisfactory considering the limited lending opportunities in the area.

INSTITUTION	ASSETS*	AVERAGE LTD RATIO
Buckholts State Bank	59MM	40.98
FNB Giddings	155MM	54.38
City NB Taylor	189MM	37.84
Classic Bank, Cameron	220MM	64.38
First Texas Bank	310MM	44.95
Citizens NB Cameron	324MM	39.47

*As of September 30, 2011

Lending in Assessment Area

A majority of CNB's loans are made within its AA. In order to assess performance for this criterion, we reviewed and verified an internal report that identified all loans by census tract that originated or renewed between 2010 and 2011. Although 76% of loans were made in the AA; 57% of the dollar amount went to loans within the AA. The volume of commercial out-of-AA loans is due to CNB's loan participations purchased from areas outside the AA and a relatively low demand for large loans within the AA.

The volume of residential real estate out-of-AA loans is due to the low level of residential real estate demand within the AA. Also, the bank has experienced some loan demand from the Bastrop area, which is outside of the bank's AA, due to the recent fire activity in the area.

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
Loan Type	#	%	\$(000s)	%	#	%	\$(000s)	%
Residential Real Estate	34	60.71	\$2,704	25.27	22	39.29	\$7,996	74.73
Consumer	35	87.50	\$409	69.26	5	12.50	\$182	30.74
Commercial	35	87.50	\$13,597	75.00	5	12.50	\$4,608	25.00

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

As indicated previously, in order to provide a more meaningful analysis, we segmented CNB's service area into both MSA and non-MSA AAs. Two of CNB's four branches and the main location are located in the non-MSA AA. As such, approximately 59% of in-AA loans, and 25% of dollars loaned, are to borrowers in non-MSA areas. In order to assess CNB's lending performance in the non-MSA AA, we obtained income information from a sample of 20 consumer loans, gross revenues from a sample of 20 commercial loans, and Home Mortgage Disclosure Act of 1975 (HMDA) information relative to mortgage-related loans originated in the non-MSA AA between 2010 and 2011.

Due to a relatively low volume of agricultural loans in the MSA AA, we focused our MSA sample on consumer and commercial-related loans. In order to assess CNB's lending performance in the MSA AA, we obtained income information from a sample of 20 in-MSA consumer loans and commercial loans. We also reviewed HMDA information relative to mortgage-related loans originated in the MSA AA between 2009 and 2011.

Census demographic data was used to identify the percentage of families and households within LMI levels in both AAs. Census demographic data was also used to identify the percentage of small businesses and farms (annual gross revenues of less than \$1 million) in the non-MSA AA. CNB's lending performance to LMI groups and to small businesses/farms meets the standard for satisfactory performance.

The following tables reflect CNB's lending performance in consumer, residential real estate, and commercial loans as it relates to the respective AA demographics.

Non-Metropolitan Statistical Area

CNB's level of lending to borrowers of different incomes and businesses of different sizes within Milam, Falls, and Lee Counties meets the standards for satisfactory performance.

The following table compares 1-4 Family residential real estate lending in the non-MSA AA to families by income level. U.S. Census demographics indicate 33% of the non-MSA AA consists of LMI families. Comparatively, CNB originated 8% of sampled loans secured by residential real estate to LMI borrowers. The lower level of loan penetration to LMI families is the result of limited loan demand in the area.

BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS – NON-MSA								
<i>Borrower Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Home Purchase	16.87	0.00	16.11	7.69	21.70	15.38	45.32	76.92
Home Improvement	16.87	0.00	16.11	0.00	21.70	0.00	45.32	100.00
Refinance	16.87	0.00	16.11	0.00	21.70	0.00	45.32	100.00

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

The bank's level of performance in lending to consumers of differing income levels within the non-MSA AA is reasonable. Demographic information indicates 0% of the AA households is low-income, while 75% are middle-income. The bank originated 5% of its consumer loans to low-income borrowers and 20% to moderate-income borrowers. Considering the demographics, CNB is performing more than reasonable with regard to consumer lending. See the table below for further details.

BORROWER DISTRIBUTION OF CONSUMER LOANS – NON MSA								
<i>Borrower Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	22.09	5	14.19	20	17.82	20	45.91	35

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

CNB's distribution of loans to small businesses is reasonable. According to U.S. Census information, 70% of businesses in the non-MSA AA have revenues of less than \$1 million. Approximately 70% of the business loans CNB originated in the AA had revenues below \$1 million. As a dollar amount, the volume is significantly lower at 22%. The low dollar volume of loans to businesses with revenues under \$1 million is not necessarily cause for concern. Included in our random sample were a few of the bank's largest loans to businesses over the \$1 million revenue mark. In addition, larger businesses inherently qualify for and demand larger loan amounts. Please see the table below.

BORROWER DISTRIBUTION OF LOANS TO BUSINESSES – NON MSA				
<i>Business Revenues (or Sales)</i>	<i>≤\$1,000,000</i>	<i>>\$1,000,000</i>	<i>Unavailable/Unknown</i>	<i>Total</i>
% of AA Businesses	70.04%	1.84%	28.12%	100%
% of Bank Loans in AA by #	14	6		100%
% of Bank Loans in AA by \$	918,380	3,173,200		100%

Source: Loan sample; Dunn and Bradstreet data.

Metropolitan Statistical Area

CNB's level of lending to borrowers of different incomes within Williamson and Travis Counties meets the standards for satisfactory performance.

The following table compares 1-4 Family residential real estate lending in the MSA AA to families by income level. U.S. Census demographics indicate 28% of the MSA AA consists of LMI families. CNB originated 44% of sampled loans secured by residential real estate to LMI borrowers.

BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS - MSA								
<i>Borrower Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Home Purchase	11.72	18.18	16.62	0.00	26.54	18.18	45.12	45.45
Home Improvement	11.72	0.00	16.62	25.00	26.54	25.00	45.12	50.00
Refinance	11.72	0.00	16.62	0.00	26.54	0.00	45.12	100.00

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

CNB’s level of performance in lending to consumers of differing income levels within the MSA AA is more than reasonable. Demographic information indicates 26% of AA households are LMI. The bank originated 60% of its consumer loans, 70% of the dollar volume, to LMI borrowers in the MSA AA. See the table below for further details.

BORROWER DISTRIBUTION OF CONSUMER LOANS - MSA								
<i>Borrower Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	12.29	8	13.71	4	20.75	1	53.25	7

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

GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES IN MSA								
<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Businesses	0.00%	0	4.51%	5%	59.61%	55%	35.88%	15%

Source: Loan sample; Dunn and Bradstreet data (15% of commercial loans in sample were outside the AA)

Geographic Distribution of Loans

CNB’s performance in lending to borrowers of different geographies meets the standards for reasonable performance. An analysis of the bank’s geographic distribution of loans would not be meaningful for the non-MSA AA, as there are no LMI geographies in Milam, Falls, or Lee Counties. The Austin-Round Rock MSA AA has five moderate-income census tracts and no low-income tracts.

The bank’s level of performance in lending to borrowers of different geographies in the Austin-Round Rock MSA is more than reasonable. Census data indicated that 5% of the MSA AA households are located in moderate-income census tracts. CNB originated 10% of the volume of the loan sample and 16% of the dollar amount of consumer loans to borrowers located in moderate-income AA census tracts. Please see the table below for further details.

GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS – MSA								
<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	0.00%	0	5.07%	10%	58.34%	55%	36.60%	10%

Source: Loan sample; U.S. Census data (25% of consumer loans in sample were outside the AA)

The next table compares 1-4 Family residential real estate lending in the MSA AA to owner-occupied housing by census tract income level. Census data indicates that 4% of the owner occupied residential real estate in the bank’s MSA AA is located in moderate-income census tracts. Comparatively, CNB originated 25% of the volume and 11% of the dollar amount of residential real estate loans to borrowers located in moderate-income geographies. Please see the table below for further details.

GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS - MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of Owner Occupied Housing	% of # of Loans	% of Owner Occupied Housing	% of # of Loans	% of Owner Occupied Housing	% of # of Loans	% of Owner Occupied Housing	% of # of Loans
Home Purchase	0.00	0.00	3.82	9.09	56.19	81.82	39.99	9.09
Home Improvement	0.00	0.00	3.82	50.00	56.19	25.00	39.99	25.00
Refinance	0.00	0.00	3.82	100.00	56.19	0.00	39.99	0.00

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

Responses to Complaints

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

COMMUNITY DEVELOPMENT TEST

CNB’s performance under the Community Development Test is rated “Satisfactory” overall. Based on a full-scope review, the bank’s performance in the Austin-Round Rock MSA and in Milam, Falls, and Lee Counties is satisfactory. We considered the bank’s capacity, business strategy, the needs of the community, and the number and types of opportunities for CD activities in making this determination.

Community Development Loans

Qualified CD loans are those that meet the definition of CD as defined in the CRA regulation, and do not include loans given consideration under the Lending Test.

Performance in the Milam, Falls, and Lee Counties – Non-MSA

CNB originated eight CD loans within these counties located in its AA since the last CRA examination totaling \$188,350.

- \$113,100 originated to finance the purchase of affordable housing rental properties for LMI individuals.
- \$30,250 originated to purchase and renovate a church building, providing various needed community services targeted to LMI individuals.
- \$38,000 originated to the Housing Authority of Rockdale which provides low rent housing in Rockdale.
- \$7,000 originated to an entity providing needed daycare services targeted to LMI individuals.

Performance in the Austin/Round Rock MSA

CNB originated five CD loans in this AA since the last CRA examination totaling approximately \$8.6 million.

- \$120,000 originated to finance the purchase of affordable housing rental properties for LMI individuals.
- \$8.5 million originated to finance Pflugerville Community Development Corporation for the purchase of acreage intended for the future development of a renewable energy park; providing for job creation and expected to attract new businesses to the area.

Community Development Investments

Investments, deposits, membership shares, or grants that have CD as their primary purpose, are defined as “qualifying investments” in the CRA regulation. Investments support community services that target LMI families and individuals. Specific examples of investments for qualifying CD organizations are described below. We took into consideration that the bank’s AA does not include any low-income census tracts. The Austin-Round Rock MSA includes only five moderate-income census tracts.

Qualified Community Development Investments

Investment opportunities that have CD as their primary purpose in the bank’s AA are considered limited. CNB has only five moderate-income census tracts and no low-income census tracts within the AA. However, we did consider investments totaling \$885,000 made in broader statewide or regional areas. The investments were related to school district-issued securities benefiting census tracts designated as being in distressed nonmetropolitan middle-income geographies. Also, since the last examination, CNB donated funds totaling \$37,660 to various organizations that provide community services to LMI individuals in its AA. For example, \$500 was donated to the United Way of Milam County to help fund local programs that provide services to LMI individuals. CNB’s level of CD investments is adequate.

Community Development Services

Qualified CD services must meet the definition of “community development” in the CRA regulation and must be related to providing financial services to qualified individuals or organizations. Opportunities for CD services are considered low- to-moderate and are primarily in the area of community services. CNB is actively involved in community services that primarily benefit LMI individuals or families. Overall, the level of CD services is adequate.

Qualified CD Services

CNB’s service area includes only five moderate-income census tracts. However, the bank does offer ATMs at each branch location, including the Taylor branch service center that is located within a moderate-income census tract. The bank also offers a free basic checking account and other lower-cost account options. Additionally, customers have access to 24-hour banking and Internet banking services, which generally help increase access to financial services for LMI individuals. With a 15.5% poverty rate for the Milam, Falls, and Lee counties and 38% of the families considered moderate-income; and 4.3% poverty rate for the Austin/Round Rock MSA of which 0% of the families are considered LMI, these services are considered favorable under the CRA review.

Additionally, various bank officers provide qualified CD services to programs primarily benefiting LMI individuals within the bank’s AA. For example, one officer serves as treasurer for a local organization that provides food and toys to disadvantaged families.

Responsiveness to Community Development Needs

CNB's CD activities, as a whole, demonstrate satisfactory responsiveness to the needs and opportunities in its AA. We contacted two community organizations in order to independently determine the needs of the bank's AA. Opportunities for CD lending are considered low-to-moderate overall, especially taking into account that most census tracts within the bank's AA range between middle- to upper-income. Opportunities for CD lending are primarily in affordable housing. CNB's level of CD lending activity is considered satisfactory, and includes various loans that finance the purchase of affordable housing rental properties for LMI individuals. The bank's level of CD service and investment activities is also satisfactory. Through CD services, CNB maintains active involvement in community activities that benefit LMI individuals.

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.