



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 31, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Citizens National Bank of Milam County
Charter Number: 5484**

**118 South Houston
Cameron, Texas 76520**

**Office of the Comptroller of the Currency
Southwestern District
500 North Akard, 1600 Lincoln Plaza
Dallas, Texas 75201-3394**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income (LMI) neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the CRA performance of **Citizens National Bank of Milam County (CNB), Cameron, Texas**, prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of March 31, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated “**Satisfactory.**”

This rating was assigned based on the following factors:

- CNB’s average loan-to-deposit (LTD) ratio of 26%, 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 assessment area.
- A substantial majority (approximately 90%) of CNB’s loans are within its assessment area, which is Milam County.
- CNB has demonstrated a strong willingness to extend loans to individuals of varying incomes and to businesses and farms of different sizes. However, the bank’s proportion of residential mortgage loans to low- and moderate-income consumers may not be representative of the assessment area’s demographics.
- There have been no complaints with respect to CNB’s CRA performance.

The following pages further describe CNB’s CRA performance.

The following table indicates the performance level of **Citizens National Bank of Milam County** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Citizens National Bank of Milam County</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans	Not Meaningful, CNB's assessment area consists only of middle and upper income areas.		
Response to Complaints	Not Applicable, no complaints relating to the bank's CRA performance have been received.		

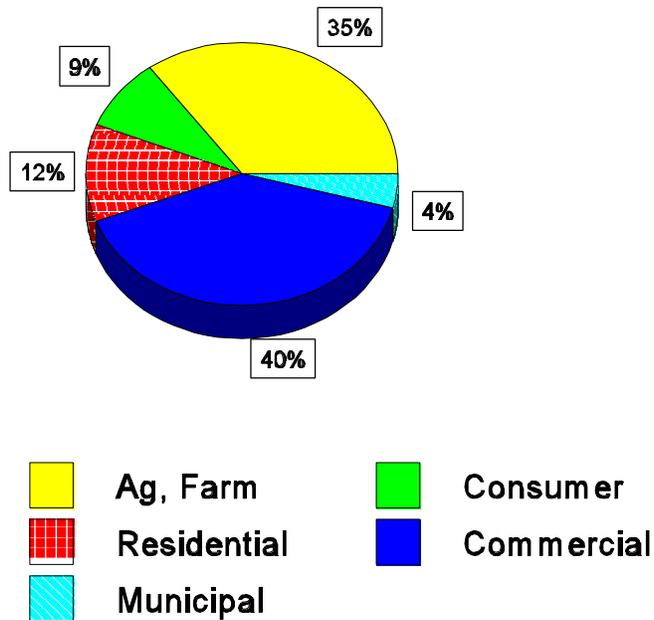
DESCRIPTION OF INSTITUTION

CNB is a \$121 million bank headquartered in Cameron, Texas, approximately 75 miles northeast of Austin, Texas. CNB has one branch office in Rockdale, Texas, which is about 15 miles south of Cameron. CNB has drive-in facilities and provides extended banking hours in each community. CNB was the first bank in the county to offer Saturday hours. CNB also provides trust services. Total trust assets approximate \$34 million. CNB opened in 1900.

The majority of CNB is owned by one family. The institution's primary focus has been agricultural lending. CNB is a certified agricultural lender, the only one in Milam County. This designation is provided to lenders which meet certain criteria established by the government's Farm Service Agency (FSA). Essentially, the lender must generate a specific number of government guaranteed agricultural-related loans, have a very low level of loan losses, and provide training for their lenders. The certified lender status benefits the bank's borrowers because CNB can offer longer terms for operating loans and the FSA guaranty fees paid by the borrower are reduced. The certification benefits the bank by reducing its documentation requirements for obtaining the government guarantees. CNB also makes real estate loans for farms, commercial businesses, and residential purposes. In addition, they provide loans for various consumer purposes and commercial businesses. The chart below shows a breakdown of CNB's loan portfolio (in dollars) as of December 31, 1997.

Loan Distribution

As of 12/31/97



CNB's primary competition is from three other banks in the county and a credit union in Rockdale. CNB faces additional competition from finance companies in Rockdale and local investment brokerage firms. Production Credit Associations (PCAs) and banks in the nearby cities of Thorndale, Taylor, Belton, and Temple provide additional competition for agricultural loans.

Based on its strong financial condition, the current local economy, product offerings, and prior performance, CNB has the ability to meet the various credit needs in its market area. At the last CRA examination in January 1995, the bank's CRA rating was "Satisfactory." No legal impediments hinder the bank's ability to provide credit. However, the competition, slow job and population growth trends, and weak demand have had a negative impact on the bank's lending opportunities.

DESCRIPTION OF ASSESSMENT AREA

CNB has designated its assessment area as Milam County. This assessment area includes the cities of Cameron, Rockdale, Thorndale, Buckholts, Milano, and Burlington. Cameron and Rockdale are the largest cities in the county, each have populations of approximately 5,000. The population of Milam county was 22,946 in the 1990 census. Updated 1997 population estimates from the Texas Utilities Company indicates that there has been very little growth in Cameron or Milam County since 1990. However, city officials in Rockdale indicate there has been some population growth in this area of the county.

There are eight block numbering areas (BNA's)¹ in Milam County. Six of the eight BNAs are considered middle-income areas as defined by the 1990 census. The other two BNAs are upper-income areas. The BNAs which include the cities of Cameron and Rockdale are designated as middle-income areas. Although there are no low- or moderate-income BNAs in the county, there are a large number of low- and moderate-income families² in the county. In 1990, 25% of the families had low-income levels and 15% had moderate-income levels. Approximately 24% of the households in the county reported incomes below poverty level. The census data also indicated that 34% of the households received social security income, which could be explained by the number of

retired individuals in the county (17%) and people over 65 years of age (19%). The percentage of

¹ Block numbering areas (BNAs) are small statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan (metro) counties where local census statistical area committees have not established census tracts. BNAs do not cross county boundaries. BNAs are classified by the following income-level designations:

A low-income BNA has an average median family income (MFI) < 50% of the 1990 state average non-metro MFI.

A moderate-income BNA has an average MFI between 50% and 80% of the state average non-metro MFI.

A middle-income BNA has an average MFI between 80% and 120% of the state average non-metro MFI.

An upper-income BNA has an average MFI > 120% of the state average non-metro MFI.

² Income level designations are as follows:

A low-income family earns less than 50% of the MFI.

A moderate-income family earns between 50% and 80% of the MFI.

A middle-income family earns between 80% and 120% of the MFI.

An upper-income family earns more than 120% of the MFI.

people over 65 years was slightly higher in Cameron at 21%. The 1990 median family income (MFI) in Cameron was the lowest in the county at \$20,893. Additional demographic information on Milam County is presented below.

Assessment Area Demographics	
Number of Families	6,220
Number of Households	8,644
Self-Employed (Farm) (% of Households)	9%
% Low-Income Families	25.40%
% Moderate-Income Families	15.29%
% Middle-Income Families	15.66%
% Upper-Income Families	43.68%
Number of Housing Units	10,511
% Owner Occupied Units	59%
Mobile Homes or Trailers	14%
Median Housing Value	\$39,137
Weighted Average of Median Year Built	1966
1990 MFI for Milam County	\$25,615
1998 MFI for Non-Metro Areas of Texas	\$32,100

Source: 1990 census, Department of Housing and Urban Development (HUD)

The local economy is considered good and stable. Rains and increased cattle prices have helped the economy recover from the drought in 1996. Primary industries within the assessment area include coal/lignite mining, agricultural production, cattle ranching, light manufacturing, retail services, and health care related businesses. 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 recently conducted an independent market survey in Rockdale and Cameron, which indicated that there are a good number of residents that work outside of these communities; particularly in Cameron.

In order to gather more current information on the nature of the community and potential lending opportunities in the assessment area, we contacted several members of the community during this examination. These individuals included representatives from the Cameron Industrial Foundation, Texas Utilities, the Housing Authority in Cameron, the FSA, the city of Rockdale, local realtors, and

an official from the Rural Development office of the U.S. Department of Agriculture. Views of area financial institutions are generally favorable. CNB was specifically mentioned by one of the contacts as a leader in agricultural lending. However, this individual also indicated that there may be fewer opportunities for agricultural lending in the future. Some farmers in the area have chosen to sell out because of the high risks and low rewards in this industry. In addition, younger individuals are often prohibited from starting a farming operation because of the high cost of equipment and land. Realtors and other individuals familiar with the housing market indicated that there has been very little new home construction in area. Several individuals mentioned the lack of available rental properties in Cameron and Rockdale, primarily in the moderate- and low-income price range, which could provide a potential lending opportunity for area banks. Contacts also mentioned a need for low cost home improvement loans. Considering the average age of the housing stock, approximately 30 years, there may also be potential opportunities for these types of loans. Contacts with the Rural Development office indicated that the low-income level of many of the individuals in Milam County, contributed to the lack of new residential lending activities in this area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

CNB's average LTD ratio is approximately the same as it was at our the last CRA examination, 26.5%. We averaged the LTD ratio from each of the twelve quarters since our last examination in January 1995. To better analyze the CNB's lending performance, we compared CNB's LTD ratio to its three primary competitors in the county, First National Bank in Cameron, The Buckholts State Bank, and NBC Bank in Rockdale. These three banks were considered peer banks and their LTD ratios averaged 32% over the same time period. CNB's loan volume in terms of dollars has actually declined slightly since our last examination; however, most of this decline is the result of out-of-area participations that have paid down. At year-end 1997, CNB's ratio was 25.5%, which was similar to the other peer banks, with the exception of one which reported a LTD ratio of 46%.

The most recent Public Evaluation (PE) for the bank reporting the 46% LTD ratio, indicates that it is a much much smaller institution than CNB or the other two peer banks. On June 30, 1997, the FDIC estimated that this bank only had total deposits of \$16 million in Milam County as compared to \$101million reported by CNB. Consequently, loan growth in the smaller bank will have a much bigger impact on the LTD ratio than it will have at CNB. The PE for this bank stated that in 1996 they lowered automobile loan rates to be more competitive with other financial institutions in the market. This may account for some of the loan growth reported by the bank on December 31, 1997. The PE further revealed that this bank has two offices in Milam County, and one in southern Bell County, which is included in the Temple-Killeen metropolitan area. Demographic information indicates that there may be additional lending opportunities for this bank being closer to a larger metropolitan area. The 1990 MFI for this portion of Bell County was slightly higher (\$29,344) than Milam County.

CNB originates a large number of small consumer loans in response to community credit needs, especially in Cameron. However, these small loans do not contribute significantly to the bank's LTD ratio. In 1997, CNB originated at least 535 consumer loans, and 42% of these loans were less than \$1,000. These small loans represented only 3% of the total dollar amount of consumer loan originations.

Another factor that has had a negative impact on the bank's LTD ratio is the nature of the bank's customer base. Bank management states that many of their depositors are older customers and more are "savers" than borrowers. CNB's deposit base does have a larger share of certificates of deposits (CDs) and money market accounts, than its local peer group banks. Investments in these types of deposits can sometimes be indicative of an older/saver customer base. Management's statements about their customer base are further supported by the fact that approximately 84 customers hold at least 25% of the bank's deposits and only 9 of these customers have loan relationships at the bank.

Strong competition from the credit union in Rockdale has also had a negative impact on the bank's LTD. This credit union offers lower rates for consumer loans than most of the area banks. All Milam County residents are currently eligible to join.

Loan demand in the area has not been strong as evidenced by the limited number of denials at the bank, as well as the relatively low lending ratios at other area banks. When considering the lack of demand, the nature of the community, the bank's customer base, competition, and lending opportunities in the assessment area, CNB's lending efforts meet satisfactory standards. CNB has done especially well in meeting the needs of its agricultural borrowers, especially considering the weak agricultural economy during the 1996 drought. CNB reported the highest volume of agricultural production loans (\$4.9 million) in the county at year-end 1997. CNB has also done well in meeting needs for small consumer loans.

Lending in the Assessment Area

A substantial majority of the bank's loans are within its assessment area. We analyzed loan distribution within Milam County by reviewing internal reports provided by management and sampling loans. We sampled 87 loans originating in 1997. This sample included consumer loans, business loans, agricultural-related loans, and real estate loans.

Management's February 28, 1998 reports indicate that 82% of the total number of outstanding commercial, agricultural, and real estate loans are within Milam County. Approximately 72% of the dollar volume of these loans are within the County. Although CNB has purchased several out-of-area commercial loans to enhance the bank's earnings performance; the substantial majority of the bank's commercial loans are still within the bank's assessment area in terms of dollars and numbers. The bank's analysis also reflects that 90% of the number and 88% of the dollar amount of consumer loans outstanding are within Milam County.

Our sample of new loans revealed results that were similar to the bank’s analysis. Approximately 90% of the total number and 80% of the dollar amount of new loans sampled were within the county.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The loan portfolio reflects a very good distribution of loans to individuals of various income levels and to businesses and farms of different sizes. In order to assess CNB’s performance in this area, we obtained income information from our sample of consumer and real estate loans in the bank’s assessment area. We also obtained gross revenue information from our sample of business and agricultural loans in the assessment area. Our analysis indicates that CNB lends to all applicants, regardless of their income category. As indicated in the chart below, CNB has a very good dispersion of consumer loans among low- and moderate-income borrowers, especially in relationship to the demographics of the county. While the bank readily offers mortgage loan products, most lending that benefits LMI individuals is centered in consumer loans.

Lending to Borrowers of Different Income Levels										
	Low- Income Families		Moderate- Income Families		Middle- Income Families		Upper- Income Families		Total	
Area Demographic Characteristics	25.40%		15.29%		15.66%		43.68%		100%	
	#	%	#	%	#	%	#	%	#	%
Consumer Loan Distribution by Borrower Income	18	43%	9	21%	6	14%	9	21%	42	100%
	#	%	#	%	#	%	#	%	#	%
Real Estate Loans	0	0%	0	0%	3	42%	4	57%	7	100%
Total	18	37%	9	18%	9	18%	13	27%	49	100%

CNB originates a satisfactory number of commercial and agricultural loans. In the June 30, 1997 Report of Condition (Call Report), CNB reported the highest number of agricultural production loans (206) in the County. Both Cameron banks, CNB and First National Bank, reported approximately the same number of farm loans, 61 and 66, respectively. CNB also reported the highest number (205)

of commercial and commercial real estate loans. The majority of CNB’s commercial and agricultural loans have been to “small businesses” with revenues less than \$1 million, and “small farms” with revenues less than \$500,000. The chart below reflects the results of our analysis of a sample of 1997 agricultural and commercial loans in the bank’s assessment area.

Loans to Small Businesses										
Revenue Ranges	< \$100M		\$101M -- \$250M		\$251M - \$500M		\$501M -- \$1 MM		> \$1 MM	
	#	%	#	%	#	%	#	%	#	%
Agricultural	3	27%	1	9%	4	37%	3	27%	0	0%
Commercial	2	33%	0	0%	1	17%	2	33%	1	17%
Total	5	29%	1	6%	5	29%	5	29%	1	6%

We also selected a proxy to better assess the bank’s willingness to extend credit to low- and moderate-income individuals, small businesses, and small farms. The proxy we used was loan size. While loan size does not provide a definite indicator of customer income, there is sometimes a general correlation between the two. As previously mentioned, the bank makes a substantial number of small consumer loans. In 1997, the average size of all new consumer loans was only \$6,000, and as previously mentioned, 42% of the total number were less than \$1,000. The average size of 1997 commercial, real estate, and agricultural loans was only \$49,000.

Geographic Distribution of Loans

As previously mentioned when describing the assessment area, all the BNAs in Milam County are considered middle- or upper-income areas. Consequently, analysis of loan distribution by BNA would not provide a meaningful analysis. However, CNB does perform an analysis on a city wide basis in the county and by street address in the cities of Cameron and Rockdale. The bank’s last analysis dated February 28, 1998 reflects a good distribution of new loans throughout the entire assessment area.

Community Development Activities and Services

We also looked at the loan products and services offered by the bank that are targeted to low- and moderate-income individuals. The bank has a “no minimum” loan policy and offers low cost mortgage loans. The bank’s certified lender status helps to better meet the needs of the smaller farmers and ranchers.

CNB also offers a “free checking account” which helps meet the needs of low- and moderate-income customers.

CNB has also set aside approximately \$500,000 to make low cost loans for the redevelopment and rehabilitation of downtown Cameron. However, as of this date, there has not been any interest in this program.

Response to Complaints

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

Compliance with Fair Lending Laws and Regulations

A fair lending examination was conducted as part of a compliance examination of CNB. The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. No fair lending violations were identified.