



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 17, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Citizens National Bank
Charter Number 17456**

**1320 Loop 304 East
Crockett, TX 75835**

**Comptroller of the Currency
Longview Field Office
1800 West Loop 281, Suite 306
Longview, TX 75604**

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 has a satisfactory record of meeting community credit needs. This rating is based upon the following:

- The bank's loan-to-deposit ratio is reasonable when compared to other banks within the assessment area.
- A majority of the bank's loans are extended within its assessment area.
- Credit activity is reasonably distributed to borrowers of different income levels.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

DESCRIPTION OF INSTITUTION

Citizens National Bank is a \$68 million bank with its office located at 1320 Loop 304 East, Crockett, Texas. The bank is a Sub-Chapter S Corporation owned by a one-bank holding company (Citizens Bancorp). The bank also has an automated teller machine (ATM) located at its office, in addition to walk-in and drive-up teller facilities. There are no other branches or ATM locations. As of March 31, 2002, loans totaled \$36 million and represented 53% of total assets. Primary product lines consist of commercial, commercial real estate, and consumer loans. The following chart reflects the distribution of the bank's loan portfolio.

LOAN CATEGORY	\$ (000)	%
Residential Mortgage Loans	5,967	16.75
All Other Real Estate Loans	11,052	31.03
Commercial Loans	7,319	20.55
Consumer Loans	8,025	22.52
Agricultural Loans	3,258	9.15
Total	35,621	100.00

There are no legal impediments or other factors which inhibit the bank's ability to meet the credit needs of the community. The bank was rated satisfactory during the prior CRA Examination, dated October 7, 1997.

DESCRIPTION OF ASSESSMENT AREA

The Board has designated Houston County, Texas as the bank's assessment area. The designated assessment area includes seven Block Numbering Areas (BNAs): 9501, 9502, 9503, 9504, 9505, 9506, and 9507, all of which are located in Houston County. These BNAs include the communities of Crockett, the county seat of Houston County, Grapeland, Lovelady, and Kennard. The assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude low or moderate income areas. The assessment area population is 21,375, based upon 1990 Census Bureau data. Approximately 26% of families located within the assessment area are low-income; 17% are moderate-income; 18% are middle-income; and 39% are upper-income. All but two of the BNAs are designated as middle-income. BNAs 9502 and 9504 are designated as moderate-income, with 9502 located in the Porter Springs area and 9504 encompassing the southern half of Crockett city limits. The median family income for the assessment area is \$35,800 and the percentage of owner occupied housing is 56.51%, based upon updated 2001 Department of Housing and Urban Development (HUD) data. The local economy is considered stable with an unemployment rate of 2.66%. Local employment opportunities are centered in government, education, medical, agriculture, manufacturing, service industries, and retail trade. Major employers include Vulcraft, Northcutt Woodworks, Texas Department of Criminal Justice, Wal-Mart Distribution Center, East Texas Medical Center, Crockett ISD, and local government offices. Competition within the assessment area is strong. Competitors include one other national bank and two state banks, two national bank branch sites, and a mortgage loan originator.

The following table provides a description of the bank's assessment area based upon census data and updated 2001 HUD data.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
POPULATION	
Number of Families	5,646
Number of Households	7,773
GEOGRAPHIES	
Number of Census Tracts/BNA	7
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	28.57%
% Middle-Income Census Tracts/BNA	71.43%
% Upper-Income Census Tracts/BNA	0.00%
MEDIAN FAMILY INCOME (MFI)	
1990 MFI for AA	\$23,546
2001 HUD-Adjusted MFI	\$35,800
ECONOMIC INDICATORS	
Unemployment Rate	2.66%
2001 Median Housing Value	\$39,568
% of Households Below Poverty Level	26.36%

Contacts with a local business organization and a local realtor indicate the primary community credit needs are centered in small business, agricultural, and residential mortgage loans.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio of Citizens National Bank is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly loan-to-deposit ratio has averaged 53.57% since the prior CRA Examination, in October of 1997. The average loan-to-deposit ratio of banks within the assessment area for the same period was 56.11%, with the lowest ratio at 28.63% and the highest ratio at 74.40%. Following is a table with average loan-to-deposit ratios for all banks with main offices located within the assessment area.

INSTITUTION	Assets (000's) (As of 3/31/02)	AVERAGE LOAN-TO-DEPOSIT RATIO
First National Bank - Crockett	\$117,463	74.40%
First State Bank - Grapeland	\$57,527	65.29%
Lovelady State Bank	\$27,416	56.13%
Grapeland State Bank	\$14,155	28.63%
Citizens National Bank	\$68,367	53.57%

Lending in Assessment Area

A substantial majority of the bank's lending activity is located within its assessment area. We reviewed a sample of 20 residential mortgage loans extended since the prior CRA Examination, in October of 1997, and used bank compiled loan data on 158 commercial and 915 consumer loans extended from December 1, 2000 through November 30, 2001. Bank compiled loan data was tested and verified for accuracy. Loan data reflects 91.67% of the number and 89.35% of the dollar amount of loans were extended within the bank's assessment area. The breakdown by loan category is illustrated in the following table.

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential	19	95.00	1,037	80.51	1	5.00	251	19.49
Commercial	145	91.77	8,332	91.25	13	8.23	799	8.75
Consumer	838	91.58	5,488	88.39	77	8.42	721	11.61
Total Reviewed	1,002	91.67	14,857	89.35	91	8.33	1,771	10.65

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

The distribution of loans within the assessment area reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes. Our conclusions are based upon review of Citizens National Bank's primary loan types, which include commercial, residential, and consumer loans. Since all other real estate loans included more than one loan type, such as interim construction, agricultural production, and commercial enterprises, it was not considered a primary type. Our sample of residential real estate loans extended within the assessment area included 19 loans totaling \$1 million. Consumer loan information compiled by the bank included 915 loans totaling \$5 million. The distribution of home purchase and consumer loans generally approximates the income characteristics of the assessment area. While the number and dollar amounts of home purchase loans to low-income families are at a level below the demographics of the assessment area, the number of home mortgage loans to moderate-income families exceeds the demographic percentage. The same holds true for consumer loans. Borrowing for home purchases by low-income individuals is limited due to the low level of affordable housing stock available within the assessment area and the bank's decision not to offer a long-term, fixed rate mortgage product. Following are tables detailing lending to borrowers of different incomes.

RESIDENTIAL REAL ESTATE								
BORROWER INCOME LEVEL	LOW		MODERATE		MIDDLE		UPPER	
% OF AA FAMILIES	26.1		17.3		17.7		38.9	
LOANS	Number %	Amount %	Number %	Amount %	Number %	Amount %	Number %	Amount %
TOTALS	15.8	7.4	21.1	6.1	10.5	9.7	52.6	76.8

CONSUMER								
BORROWER INCOME LEVEL	LOW		MODERATE		MIDDLE		UPPER	
% OF AA HOUSEHOLDS	31.7		14.5		14.3		39.5	
LOANS	Number %	Amount %	Number %	Amount %	Number %	Amount %	Number %	Amount %
TOTALS	27.4	9.5	29.3	18.5	21.0	21.8	22.3	50.2

The distribution of business loans also reflects a reasonable penetration among businesses of different sizes. Based on U.S. Census information, there are 743 businesses within the assessment area with reported revenues equal to or less than \$1 million. This number represents 93.6% of all businesses which reported revenues. The bank's data on new commercial loans extended from December 1, 2000 through November 30, 2001, representing 158 loans totaling \$8.3 million, reflects all commercial loans made during that period to businesses with reported revenues were extended to small businesses. The following table details the loan data.

BORROWER DISTRIBUTION OF LOANS TO SMALL BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	93.6	6.4
% of Bank Loans in AA #	100.0	0.0
% of Bank Loans in AA \$	100.0	0.0

Geographic Distribution of Loans

The distribution of loans reflects reasonable penetration throughout the assessment area, given the bank's overall business strategy and location. While there are no low- or upper-income BNAs, the bank has provided loans to moderate-income BNAs in excess of the demographic percentages. The following tables demonstrate residential and consumer loan penetrations within the bank's assessment area.

RESIDENTIAL REAL ESTATE								
CENSUS TRACT INCOME LEVEL	LOW		MODERATE		MIDDLE		UPPER	
%OF AA OWNER OCCUPIED	0.0		21.2		78.8		0.0	
LOANS	Number %	Amount %	Number %	Amount %	Number %	Amount %	Number %	Amount %
TOTALS	0.0	0.0	47.4	37.9	52.6	62.1	0.0	0.0

CONSUMER								
CENSUS TRACT INCOME LEVEL	LOW		MODERATE		MIDDLE		UPPER	
%OF AA HOUSEHOLDS	0.0		23.6		76.4		0.0	
LOANS	Number %	Amount %	Number %	Amount %	Number %	Amount %	Number %	Amount %
TOTALS	0.0	0.0	28.5	23.2	71.5	76.8	0.0	0.0

The geographic distribution of business loans is also reasonable based on the bank's location and demographics of the assessment area. Following is a table detailing commercial loan penetration within the assessment area.

BUSINESS LOANS								
CENSUS TRACT INCOME LEVEL	LOW		MODERATE		MIDDLE		UPPER	
% OF AA BUSINESSES	0.0		20.0		80.0		0.0	
LOANS	Number %	Amount %	Number %	Amount %	Number %	Amount %	Number %	Amount %
TOTALS	0.0	0.0	27.5	31.7	72.5	68.3	0.0	0.0

Responses to Complaints

Management has not received any written complaints for the two-year period prior to this examination.

Fair Lending Review

An analysis of 2000 and 2001 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1997.