



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 4, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Citizens National Bank of Texas
Charter Number: 13516

200 N. Elm Street
Waxahachie, TX 75165

Office of the Comptroller of the Currency
Dallas Field Office
225 E. John Carpenter Freeway, Suite 500
Irving, TX 75062

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 Test is rated: Satisfactory.

The Community Development Test is rated: Outstanding.

The Citizens National Bank of Texas rating is supported by the following factors:

- A majority of the loans originated during this evaluation period were made inside the assessment area.
- The loan-to-deposit ratio is more than reasonable and exceeds the standard for satisfactory performance.
- Lending to borrowers of different income levels and businesses of different sizes meets the standard for satisfactory performance.
- Management demonstrates excellent responsiveness to community development needs and opportunities in the assessment area.

Scope of Examination

Citizens National Bank of Texas (CNB) qualifies as an Intermediate Small Bank under the CRA regulation and therefore is subject to a Lending Test and Community Development (CD) Test. The lending test evaluates the bank's record of helping to meet the credit needs of its assessment area (AA) through its lending activities. The community development test evaluates a bank's CD lending, qualified investments and CD services.

The evaluation under the lending test covers loans originated over a four year period between January 31, 2007 and March 31, 2011. CNB has two separately delineated AAs. However, this Performance Evaluation primarily considers the larger of the two AA's for the lending test since thirteen of the fourteen branch locations and over 99 percent of loans and deposits are held in this AA. We performed a very limited review of the second AA and found no conspicuous gaps. We evaluated performance under the lending test based on a review of the primary product types, which are discussed in further detail in the following section. We also evaluated CD activities over the same time period for both AAs.

Description of Institution

First Citizens Bancshares, Inc., a single-bank holding company, owns CNB. The main branch is located in Waxahachie, Texas, approximately 25 miles south of Dallas, Texas. The city of Waxahachie is near the intersection of Interstate Highway 35 and US Highway 287 and provides easy access to both Dallas and Fort Worth. CNB's 13

branches primarily serve southern portions of the Dallas-Fort Worth-Arlington metropolitan area.

CNB received a “Satisfactory” rating for the previous CRA public evaluation dated January 29, 2007. There are no financial or legal obstacles affecting CNB’s ability to meet community credit needs. Competition consists of various locally-owned community banks and branches of larger community, regional, and multi-national banks which operate in the AA.

CNB is a full service institution providing various loan and deposit products. As of March 31, 2011, CNB had total assets of \$524 million, total loans of \$467 million, and total deposits of \$440 million. Loans represent 89 percent of assets and 106 percent of deposits.

The table below details CNB’s mix of loan products as of March 31, 2011. We selected commercial and residential real estate loans for review at this examination based on the dollar amount of loans outstanding. We also selected consumer installment loans based on the number of loans originated. These three products are CNB’s primary loan products, and we used them to assess the bank’s CRA performance.

Loan Category (as of March 31, 2011)	Balance 000s	Portfolio Allocation	Number Of Loans	Percentage of Number
Commercial	\$293,605	63.00%	776	18.0%
Residential Real Estate	\$107,420	23.00%	2,309	53.0%
Consumer Installment	\$9,455	2.00%	1,187	27.0%
Agriculture (Purpose/Real Estate)	\$3,517	0.75%	21	0.6%
Other: State/Political Subdivisions	\$52,425	11.00%	33	0.9%
Other	\$285	0.25%	12	0.5%
Total	\$466,707	100%	4,338	100%

Description of Assessment Area(s)

CNB has two separate AAs. One is the Dallas-Plano-Irving, TX MSA (19124), and the other is the Fort Worth-Arlington, TX MSA (23104). The Dallas-Plano-Irving, Texas MSA (Dallas AA) is the larger of the two AAs and includes all of Ellis County, the southern portion of Dallas County, and a majority of Kaufman County. It is also where thirteen of the fourteen bank branches are located. A majority of CNB’s loans and deposits are in this AA. The AAs meet the requirements of regulatory guidelines and do not arbitrarily exclude any low- or moderate-income areas. The following table is based upon 2000 census data and reflects the demographics of the Dallas AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF DALLAS AA	
<i>Population</i>	
Number of Families	96,149
Number of Households	121,554
<i>Geographies</i>	
Number of Census Tracts/BNA	71
# - % Low-Income Census Tracts/BNA	1 - 1.4%
# - % Moderate-Income Census Tracts/BNA	18 - 25.4%
# - % Middle-Income Census Tracts/BNA	37 - 52.1%
# - % Upper-Income Census Tracts/BNA	15 - 21.1%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	56,427
2007 HUD Adjusted MFI	63,200
2008 HUD Adjusted MFI	65,000
2009 HUD Adjusted MFI	68,700
2010 HUD-Adjusted MFI	68,900
<i>Economic Indicators</i>	
Unemployment Rate	8.2%
2010 Median Housing Value	85,790
% of Households Below Poverty Level	7.9%
<i>Housing Statistics</i>	
Owner-Occupied Units	71%
Rental-Occupied Units	24%
Vacant Housing Units	5%

Source: U.S. Census data

The Dallas AA primarily serves the southern edge of the MSA. In the Waxahachie area, where the majority of CNB's operations exist, some of the largest employers include the Walgreens distribution center and other industrial companies such as Owens Corning, Tyler Refrigeration, and US Aluminum. Management also stated that the Baylor Health Care Center is a large employer in the local area.

We obtained additional information regarding the credit needs of the community from a person associated with the community relations department for the city of Waxahachie. The community relations department handles media contact and disseminates information to residents. This department also produces graphics and reports for the economic development department. Community relations receives a small amount of funding from the city's general fund and receives the rest of its funding from sponsorships.

The community contact stated there are many opportunities for bank involvement in both community fundraisers and community development projects. Banks can also provide credit to a few local builders that provide low-income housing. Two local community banks, one of which is CNB, are extremely involved in local fundraisers and development projects.

Conclusions with Respect to Performance Tests

LENDING TEST

CNB's lending test rating is Satisfactory. A substantial majority of loans originated since the prior CRA examination are within the AA, and the loan-to-deposit ratio is more than reasonable. Borrower distribution shows reasonable penetration to low- and moderate-income borrowers. Geographic distribution needs to improve because of poor dispersion to low- and moderate-income census tracts. Please see the section below titled "Geographic Distribution of Loans" for more details.

Loan-to-Deposit Ratio

The loan-to-deposit ratio averaged 101 percent since the prior examination and is more than reasonable, as shown in the table below. CNB's ratio compares favorably with other banks in the AA over the same time period.

Institution	Average Assets - As of 03/31/11 (000's)	Average LTD Ratio
<i>Citizens National Bank of Texas</i>	<i>\$523,749</i>	<i>101.2%</i>
Vintage Bank, Waxahachie	\$144,591	85.0%
First National Bank of Burleson	\$181,460	57.2%
First Financial Bank, NA, Cleburne	\$284,357	58.1%
Commercial State Bank	\$58,900	58.3%
Ennis State Bank	\$109,913	84.8%
Pinnacle Bank	\$528,834	63.6%
Cowboy Bank of Texas	\$44,689	68.8%
Average	-	72.1%

Lending in Assessment Area

A substantial majority of Home Mortgage Disclosure Act (HMDA) reportable loans are within the AA. By both number and dollar amount, home purchase loans inside the AA are 84 percent; home improvement loans inside the AA are 93 percent; and refinanced home loans inside the AA are 90 percent.

Lending in Dallas MSA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	465	83.94	89	16.06	554	59,476	83.42	11,821	16.58	71,297
Home Improvement	122	93.13	9	6.87	131	7,190	93.13	530	6.87	7,720
Refinancing	340	89.71	39	10.29	379	47,918	90.04	5,302	9.96	53,220
Totals	927		137		1,064	114,584		17,653		132,237

Source: data reported under HMDA

A majority of CNBs consumer and commercial loans are inside the assessment area. Based on our sample, 100 percent of consumer loans are within the AA, and 85 percent of commercial loans by number are within the AA. By number of consumer and commercial loans combined, 93 percent are within the AA. By dollar amount, the percentage of commercial loans within the AA is 46 percent. The commercial loans within the AA are smaller dollar amounts than those outside the AA.

Lending in Dallas MSA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	20	100	0	0	20	155	100	0	0	155
Commercial	17	85	3	15	20	6,233	46	7,433	54	13,666
Totals	37	93	3	8	40	6,388	46	7,433	54	13,821

Source: loan sample

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

Borrower distribution for home and business loans is reasonable. Both types of loans have penetration levels that are below or near the percentage of low and moderate income borrowers in the AA. For home loans, the percentage of low-income families in the AA is 8.34 percent, and penetration is 4.27 percent, 7.69 percent, and 5.68 percent for home purchase, home improvement, and home refinance. The percentage of moderate-income families in the AA is 26.57 percent, and penetration is 20.38 percent, 13.68 percent, and 14.59 percent, respectively.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Dallas MSA								
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 Purchase	8.34	4.27	26.57	20.38	34.10	19.19	31.00	56.16
Home Improvement	8.34	7.69	26.57	13.68	34.10	20.51	31.00	58.12
Refinancing	8.34	5.68	26.57	14.59	34.10	26.14	31.00	53.50

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

Borrower distribution for consumer loans is excellent. Penetration significantly exceeds AA ratios. For consumer loans, the percentage of low-income families in the AA is 21.73 percent and penetration is 30 percent. The percentage of moderate-income families in the AA is 19.24 percent and penetration is 40 percent.

Table 2A - Borrower Distribution of Consumer Loans in Dallas MSA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	21.73	30	19.24	40	19.61	15	39.43	15

Source: U.S. Census data and loan sample

The percentage of AA businesses with gross annual revenue of \$1 million or less is 84 percent. Penetration is 85 percent by number of loans and 53 percent by dollar amount. The majority of loans are to businesses with gross revenues of less than \$1 million, but the dollar amounts of those loans are small compared to the dollar amounts of loans to businesses with gross annual revenues greater than \$1 million.

Table 2B - Borrower Distribution of Loans to Businesses in Dallas MSA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	84.08	2.43	13.49	100%
% of Bank Loans in AA by #	85.00	15.00	0	100%
% of Bank Loans in AA by \$	53.00	47.00	0	100%

Source: Dunn and Bradstreet data and loan sample

Geographic Distribution of Loans

Geographic distribution of loans needs to improve. Distribution of residential and consumer loans to low- and moderate-income areas is significantly lower than the ratio of low- and moderate-income census tracts (CT). The percentage of owner-occupied housing in low-income CTs in the Dallas AA is 1.75 percent and in moderate income CTs is 18.71 percent. Loan penetration of low-income areas is zero. Loan penetration of moderate-income areas for home purchase is 11.14 percent, for home improvement is 10.26 percent, and for home refinance is 5.47 percent. This low penetration is partially mitigated by the fact that apartment complexes are more dominant in these

low- and moderate-income CTs. The low penetration is further mitigated because CNB currently only offers conventional mortgages and does not offer FHA or other low-cost mortgages.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Dallas MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchasing	1.75	0	18.71	11.14	37.13	73.93	42.40	14.93
Home Improvement	1.75	0	18.71	10.26	37.13	70.09	42.40	19.66
Refinancing	1.75	0	18.71	5.47	37.13	77.51	42.40	17.02

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

The distribution of consumer loans to low- and moderate-income areas is poor. The percentage of AA households in low-income CTs is 7.96 percent and penetration is zero. The percentage of AA households in moderate-income CTs is 27.37 percent and penetration is 5 percent. This is mitigated by CNBs excellent borrower distribution to low- and moderate-income individuals, as shown in Table 2B above.

Table 3A - Geographic Distribution of Consumer Loans in Dallas MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	7.96	0	27.37	5	35.68	80	28.98	15

Source: U.S. Census data and loan sample

The distribution of business loans to low- and moderate-income areas is reasonable. The percentage of AA businesses in low-income CTs is .56 percent and in moderate-income CTs is 19.81 percent. The distribution of business loans to low-income areas is zero, but this is not a concern since less than one percent of AA businesses are in low-income tracts. The distribution of business loans to moderate-income areas is 15 percent. This is lower than the percentage of AA businesses in those tracts but is still reasonable.

Table 3B - Geographic Distribution of Loans to Businesses in Dallas MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Businesses	0.56	0	19.81	15	50.02	50	29.61	35

Source: Dunn & Bradstreet data and loan sample

Responses to Complaints

Since the prior examination there has been one CRA related complaint. Management responded promptly and professionally to HUD and provided required documentation.

COMMUNITY DEVELOPMENT TEST

The number and amount of community development loans, services, and qualified investments is outstanding, based on the bank's size and financial condition. Since the prior examination, management made three investments and numerous donations, originated 35 community development loans, and participated in numerous community development services. Employees are active within the community and are sensitive to community development opportunities and needs of the community.

Number and Amount of Community Development Loans

CNB has nine loan relationships – 35 total loans – that qualify as community development loans. The total amount of these loans is \$11,670,900. Loan proceeds were used for low- and moderate-income housing, new equipment or vehicles for economic development in low- and moderate-income census tracts, and temporary funds to non-profit organizations for low- and moderate-income families.

Number and Amount of Qualified Investments

CNB has three qualified investments totaling \$1,005,400. Two of the investments are \$500 thousand each and are to promote economic development within CNBs AA. The investment funds promote economic development by raising capital to make loans and purchase subordinated debenture and equity securities issued by lower to middle market companies located primarily in Texas. The Small Business Administration (SBA) also provides part of the funding. The remaining \$5,400 was invested in a children's home for a new recreational area. In addition to these investments, CNB made hundreds of donations totaling \$904,800. Many of the donations were to schools within the AA for various programs or equipment that benefit low- and moderate-income individuals. Over half of the students in all of the schools within the AA qualify for the federal free and reduced lunch program. CNB also donated money each year to a scholarship fund. Eligibility for the scholarship is based on grades and financial need. The remaining donations were to charities or shelters that benefit low- and moderate-income individuals. Total investments and donations during our review period are \$1,910,200.

Extent to Which the Bank Provides Community Development Services

CNB has 93 documented instances of community development services during the review period. Many employees participate in one or more CD services. Over half of the students in all of the schools in CNBs AA come from low- or moderate-income families. All the schools qualify for the federal government's free and reduced lunch plan. Some of the services employees participated in include making deliveries for meals on wheels, providing financial training and classes for high school students,

assisting with Habitat for Humanity, participating in school career days, assisting with Big Brother/Big Sister, providing financial classes at the senior center, and teaching banking and budgeting to teen mothers.

Responsiveness to Community Development Needs

Management and employees of CNB display excellent responsiveness to the community development needs of the assessment area. They demonstrate this responsiveness through numerous CD loans, qualified investments and donations, and CD services. Management has an excellent relationship with local charities, non-profit organizations, local government, and schools.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.