



## **PUBLIC DISCLOSURE**

April 27, 2015

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Citizens National Bank  
Charter Number: 24297

11407 Windsor Boulevard  
Windsor, Virginia 23487

Office of the Comptroller of the Currency

Roanoke Field Office  
4419 Pheasant Ridge Road  
Suite 300  
Roanoke, Virginia 24014

**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**

We assigned the Community Reinvestment Act (CRA) rating based on the following information:

- The bank's loan-to-deposit ratio is more than reasonable;
- The distribution of loans, given the demographics of the assessment area, reflects reasonable penetration among businesses of different sizes; and
- The distribution of loans to businesses located in census tracts with varying income levels is reasonable.

## **Scope of Examination**

Citizens National Bank (CNB) was evaluated under the Small Bank (SB) Community Reinvestment Act procedures, which consisted of a lending test. The lending test evaluates the bank's record of meeting the credit needs of its Assessment Area (AA) through its lending activities. The lending test for CNB covers its performance from January 1, 2012 through December 31, 2013, as this is representative of its lending strategy since the last CRA evaluation.

The bank's primary loan product is business loans. We chose the primary loan product based on originations, outstanding balances, information gathered from previous regulatory activity, and discussions with management. Our analysis is based on a sample of twenty business loans originated during the evaluation period. The sample was selected using numerical sampling guidelines. The Lending Test analysis is based on the bank's performance during the evaluation period using comparative demographic data from the 2010 U.S. Census.

## **Description of Institution**

CNB is a community bank located in Windsor, Virginia and was chartered on April 29, 2003. The holding company, CNB Bancorp, Inc. was dissolved in the first quarter of 2012. The bank operates one Automatic Teller Machine (ATM) located adjacent to their headquarters. No branches have been opened or closed since the previous CRA evaluation. With the exception of the dissolution of the holding company, there have not been any significant changes to CNB's corporate structure, including merger or acquisition activities, since the last CRA evaluation.

As of March 31, 2015, CNB had total assets of approximately \$56 million and Tier One Capital plus the Allowance for Loan and Lease Losses of \$6.8 million. The bank operates out of one location. The composition of the bank's loan portfolio is outlined below.

Table 1 Product Category	Gross Loans as of March 31, 2015*	
	Dollar Amount (\$000's)	Percentage of Total Loans
Commercial & Industrial Including Commercial Real Estate	22,024	49.46
Residential Mortgage Loans	11,137	25.01
Construction & Land Development	10,057	22.58
Individuals	880	1.97
All Other	429	0.98
<b>Total</b>	<b>44,527</b>	<b>100.00</b>

\*Data obtained from "Consolidated Reports of Condition and Income for A Bank with Domestic Offices Only - FFIEC 041"

The bank offers a variety of traditional deposit and loan products to consumers. Commercial lending is primarily for construction of 1-4 family residential properties. There are no financial, legal constraints, or other conditions that would hinder the bank's ability to help meet the credit needs of its assessment area. The bank received a "Satisfactory" rating in its September 20, 2010 CRA Performance Evaluation.

## DESCRIPTION OF ASSESSMENT AREA

CNB has one AA. The AA includes all of Isle of Wight County and the City of Suffolk. Both Isle of Wight County and the City of Suffolk are part of the larger Norfolk-VA Beach- Newport News, VA-NC Metropolitan Statistical Area (MSA). The AA is comprised of 36 census tracts, including three low- and one moderate-income census tracts.

The population of Isle of Wight County, based on 2010 U.S. Census Bureau Data, is 35,210. The county's unemployment rate as of December 2014 was 4.7 percent, which is slightly below the state average of 4.8 percent. The population of the City of Suffolk, based on 2010 U.S. Census Bureau Data, is 84,585. The City of Suffolk's unemployment rate as of December 2014 was 5.1 percent.

Unemployment in both areas is below the national average of 5.6 percent as of December 2014. The largest industries in the AA include services, retail trade and construction. CNB operates in a highly competitive market. Fifteen financial institutions operate in Isle of Wight County and the City of Suffolk ranging from small community banks to large multi-national institutions. Based on the Federal Deposit Insurance Corporation's Deposit Share Report, the AA is dominated by a community bank and a large state bank.

## COMMUNITY CONTACT

We conducted a community contact with a Board Member of the City of Suffolk Economic Development Authority (SCEDA) to determine the credit and development needs in the AA. SCEDA's primary goal is to generate economic activity in the City of Suffolk. They achieve this mission by acquiring property on the City's behalf for future development. The contact stated that financial institutions have minimal opportunity to support the SCEDA's mission

as the SCEDA typically focuses on large national or multi-national companies, which have their own financing arrangements in place. However, the contact stated there is opportunity for local financial institutions to provide deposit and loan products to employees relocating to the area. The contact did not provide specific comments relative to CNB's performance in the AA but noted that local institutions are generally supportive of the community.

## **Conclusions with Respect to Performance Criteria**

### **LENDING TEST**

The bank's performance in the lending test is considered satisfactory. The bank's Loan-to-Deposit (LTD) ratio is more than reasonable. The bank's average LTD since the previous CRA evaluation was 85.24 percent compared to peer group (bank's listed on the FDIC Deposit Market Share Report for Isle of Wight County and the City of Suffolk) average of 76 percent. The bank's more than reasonable LTD ratio mitigates the unfavorable rating for the Lending in AA assessment. During the evaluation period, the bank originated a majority of their primary loan product from outside the AA. Management stated that due to relatively weak loan demand within their AA, they looked outside the AA for new loan originations.

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

Overall lending to borrowers of different income levels and businesses of different sizes is reasonable. The distribution of loans to small businesses was comparable with the number of small businesses located in the AA. The geographic distribution of loans within the AA is reasonable. Due to the limited number of low- (three) and moderate- (one) income census tracts in the AA, we placed additional emphasis on the bank's lending to businesses of varying size.

### **Loan-to-Deposit Ratio**

CNB's loan-to-deposit ratio is more than reasonable considering the community's credit needs, demand for credit and the high level of competition in the AA. An analysis of CNB's loan-to-deposit (LTD) ratio from the third quarter of 2010 through the fourth quarter of 2014 indicates the bank exceeds the standards for satisfactory performance. The bank's average quarterly LTD ratio for these 18 quarters was 85.24 percent. The bank's quarterly LTD ratio ranged from a low of 80.07 percent at June 30, 2011 to a high of 93.06 percent at September 30, 2014. The bank's average quarterly LTD ratio compares favorably to the peer group average of 76 percent. The peer group is comprised of fifteen banks included on the FDIC Deposit Market Share Report for Isle of Wight County and the City of Suffolk. If the LTD is compared to only peer community banks (Less than \$1 billion in assets) operating in Isle of Wight County and the City of Suffolk, it is significantly higher than the community bank peer group average of 70 percent. The accompanying chart focuses on only those banks with deposit market share in the Isle of Wight County, the bank's home base. CNB's loan-to-deposit ratio exceeds those banks with offices within the county,

when you consider the over \$1 billion banks ratio is generated bank-wide. CNB originated four Community Development Loans since the previous evaluation. This positively impacted the bank’s LTD rating.

<b>Table 2 - Loan-to-Deposit Ratio</b>					
<b>Institution Name</b>	<b>City</b>	<b>ST</b>	<b>TA (\$000) 12/31/14</b>	<b>Average Quarterly Loan to Deposit Ratio</b>	<b>Market Share</b>
Farmers Bank	Windsor	VA	426,587	65.89%	52.66%
<b>Citizens National Bank</b>	<b>Windsor</b>	<b>VA</b>	<b>55,623</b>	<b>85.24%</b>	<b>11.43%</b>
Branch Banking & Trust Co. (BB&T)	Winston-Salem	NC	182,489,046	85.31%	10.84%
Wells Fargo Bank, N.A.	Sioux Falls	SD	1,532,784,000	76.73%	8.24%
Bank of America, N.A.	Charlotte	NC	1,574,093,000	67.62%	8.18%
The Bank of Southside Virginia	Carson	VA	546,745	57.63%	4.73%
The Old Point National Bank of Phoebus	Hampton	VA	871,691	71.02%	3.92%
<b>Average</b>				<b>72.78%</b>	<b>100.00%</b>

**Lending in Assessment Area**

A substantial majority of business loans originated or purchased by the bank during the evaluation period were to customers located outside the bank’s AA. CNB does not meet the standards for satisfactory performance for lending in the AA. Due to relatively weak loan demand in the bank’s AA, management decided to increase the number of out of AA loans to improve earnings during this evaluation period.

To determine the in/out ratio, we analyzed a sample of CNB’s loans originated during the evaluation period. The loan sample consisted of 20 business loans. The sample is representative of the bank’s lending philosophy and overall lending performance. The following table shows the distribution of business loans originated or purchased by the bank during the evaluation period that were located inside and outside of the bank’s AA.

<b>Table 3 Loans Originated During Evaluation Period</b>									
<b>Loan Type</b>	<b>Inside AA</b>		<b>Outside AA</b>		<b>Inside AA</b>		<b>Outside AA</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$(000)</b>	<b>%</b>	<b>\$(000)</b>	<b>%</b>	<b>\$(000)</b>
<b>Business Loans</b>	7	35	13	65	522	11.15	4,161	88.85	4,663
<b>Total</b>	7	35	13	65	522	11.15	4,161	88.85	4,663

Data derived from a random numerical sample of 20 business loans originated or purchased by the bank during the evaluation period.

As shown, a majority of the bank’s primary loan product originated by the bank is to customers located outside the bank’s assessment area.

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

Overall, lending to business of different sizes is reasonable given the bank’s size, product offering, and local economic conditions.

*Business Loans*

The bank’s geographic distribution of business loans reflects a reasonable penetration. Small businesses represented 75 percent of all businesses in the City of Suffolk and Isle of Wight County. Small businesses are businesses with gross annual revenues of one million dollars or less. The bank originated 70 percent of its business loans by number and 64 percent by dollar amount to small businesses. Further, approximately 3 percent by number were made to businesses with unknown revenues. The following table shows the distribution of commercial loans among different sized businesses in the AA.

<b>Table 4 Borrower Distribution of Loans to Businesses/Farms</b>				
<b>Business Revenues (or Sales)</b>	<b>&lt;=\$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unavailable/Unknown</b>	<b>Total</b>
% of AA Businesses	75.23%	2.52%	22.25%	100.00%
% of Bank Loans in AA by #	70.00%	25.00%	5.00%	100.00%
% of Bank Loans in AA by \$	64.40%	25.98%	9.62%	100.00%

*Source: Loan sample; 2010 U.S. Census data*

**Geographic Distribution of Loans**

The bank’s geographic distribution of loans in the AA is reasonable. There are three low and one moderate-income census tracts in the bank’s AA.

*Business Loans*

The bank’s geographic distribution of business loans reflects reasonable dispersion throughout the census tracts of different income levels. While the bank did not originate any business loans in the low-income census tract in the AA, the bank originated 25 percent (by number) of the loans sampled in moderate-income census tracts. Businesses located in low- and moderate-income census tracts totaled approximately 10 percent of all businesses in the AA; however, the bank originated 25 percent of loans by number to business located in low- and moderate-income census tracts. This reflects a reasonable geographic distribution.

Following is a table that details the bank’s performance as compared to the percentage of businesses in each census tract income level.

<b>Table 5 Geographic Distribution of Loans to Businesses/Farms</b>		
<b>Income Level</b>	<b>% of AA Business/Farms</b>	<b>% of Number of Loans</b>
Low	8.33%	N/A
Moderate	2.78%	25%
Middle	47.22%	75%
Upper	41.67%	N/A

*Source: Loan sample; 2010 U.S. Census data*

## **Responses to Complaints**

Consumer complaints had a neutral impact on the CRA rating. The bank had one complaint in its public file that did not relate to the bank's record of meeting the credit needs of its AA through its lending activities. The bank resolved the complaint satisfactorily.

## **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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