



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 2, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Citizens National Bank
Charter Number: 5484**

**118 South Houston Street
Cameron, TX 76520**

**Office of the Comptroller of the Currency
San Antonio – North Field Office
10101 Reunion Place, Suite 402
San Antonio, TX 78216**

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.**”

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 34%, 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 (81%), of CNB’s loans is within its AA.
- CNB has demonstrated a willingness to extend loans to individuals of varying incomes and to businesses and farms 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.
- There have been no complaints with respect to CNB’s CRA performance.

DESCRIPTION OF INSTITUTION

CNB is headquartered 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. With the addition of these branches, the bank now offers five full-service locations with drive-through facilities and ATM services at each location. CNB also provides trust services. Total trust assets approximate \$78 million. CNB opened in 1900. One family owns the majority of CNB.

CNB has total assets of \$233 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, small business, consumer, and agricultural loans. The table below reflects a detailed breakdown of CNB’s loan portfolio as of June 30, 2007.

Loan Category	\$(000)	%
Construction Loans	1,010	1.4%
Real Estate (RE) Farmland	3,638	4.9%
RE Residential (1-4)	9,369	12.7%
RE Multifamily (5 or more)	3,066	4.2%
RE Nonfarm Nonresidential	28,894	39.2%
Agricultural Production	9,315	12.6%
Commercial and Industrial	10,537	14.3%
Consumer	4,432	6.0%
Obligations of Municipalities	2,770	3.8%
Other	730	1.0%
Total	73,761	100%

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. At the last CRA examination in September 23, 2002, the bank’s CRA rating was “Satisfactory.” No legal impediments or other factors hinder CNB’s ability to provide credit.

DESCRIPTION OF ASSESSMENT AREA (AA)

CNB’s AA includes 29 census tracts encompassing all of Falls, Milam, and Lee Counties, and portions of Travis and Williamson Counties. All 29 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 18 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 - AA	
<i>Population</i>	
Number of Families	26,758
Number of Households	33,917
<i>Geographies</i>	
Number of Census Tracts	18
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	17%
% Middle-Income Census Tracts	56%
% Upper-Income Census Tracts	28%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$59,438
2005 HUD-Adjusted MFI	\$68,600
2006 HUD-Adjusted MFI	\$69,600
<i>Economic Indicators</i>	
Unemployment Rate	1.3%
2007 Median Housing Value	\$118,871
% of Households Below Poverty Level	5.25%

The bank’s MSA AA is comprised of 18 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 100 thousand. Based on the 2000 Census data, five census tracts are designated as upper-income, ten census tracts as middle-income, and three census tracts as moderate-income areas. There are no low-income census tracts in the MSA AA. Of the 33,917 households located within this AA, 14% are designated as low-income, 14% as moderate-income, 20% as middle-income, and 52% as upper-income households. Approximately 5% of the non-MSA AA households live below the poverty level. Communities located within this AA include: Granger, Taylor, Hutto, Plugerville, and Georgetown.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF NON-MSA - AA	
<i>Population</i>	
Number of Families	11,586
Number of Households	15,987
<i>Geographies</i>	
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%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$36,380
2005 HUD-Adjusted MFI	\$42,000
2006 HUD-Adjusted MFI	\$43,100
<i>Economic Indicators</i>	
Unemployment Rate	1.8%
2007 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 low- to moderate-income census tracts. Of the 15,987 households located within this AA, 22% are designated as low-income, 14% as moderate-income, 18% as middle-income, and 46% 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. Alcoa (an aluminum products plant) is the largest single employer in the AA and is located near Rockdale. Other major employers include: Royal Seating, Texas Utilities, the hospital, nursing homes, local school systems, and county governments. CNB has conducted independent market surveys in the past that indicate that there is 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 AA, we contacted a local city official during this examination. The contact stated that CNB is active in the community and responsive to credit needs. This contact also stated that the bank's AA is beginning to experience growth with the additions of new businesses such as restaurants, hotels, and community colleges.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio (LTD)

CNB's LTD ratio is satisfactory. The LTD ratio during the 20 quarters since our last examination has been in the low- to mid-thirties and is currently 36%. To better understand the bank's performance, we conducted an LTD analysis on CNB and four other similarly situated banks. The 20 quarter average LTD

ratios for these banks ranged from 32% to 68%, and the average LTD was 45%. Although CNB's LTD ratio is the second lowest in the comparative group, we consider it to be satisfactory given the lending opportunities within the AA.

INSTITUTION	ASSETS*	AVERAGE LTD RATIO
FNB Cameron	178MM	51.54
FNB Giddings	104MM	67.62
Buckholts State Bank	44MM	42.67
City NB Taylor	207MM	31.83
<i>Citizens NB Cameron</i>	<i>233MM</i>	<i>33.74</i>

* As of June 30, 2007

Lending in Assessment Area (AA)

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 were originated or renewed in 2006. Although 81% of loans were made in the AA; only 45% of the dollar amount went to loans within the AA. The high dollar volume to out-of-AA loans is primarily due to CNB's loan participations purchased from areas outside of the AA and a relatively low demand for large loans within the AA.

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
Loan Type	#	%	\$(000s)	%	#	%	\$(000s)	%
Total Originated in 2006	1082	81	25,065	45	225	19	30,233	55

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

As indicted 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 85% of in-AA loans, and 75% 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 and 20 agricultural loans, and Home Mortgage Disclosure Act of 1975 (HMDA) information relative to mortgage-related loans originated in the non-MSA AA between 2005 and 2006.

Due to a relatively low volume of commercial and agricultural loans in the MSA AA, we focused our MSA sample on consumer and mortgage-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 HMDA information relative to mortgage-related loans originated in the MSA AA between 2005 and 2006.

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, commercial, and agricultural 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/farms of different sizes within Milam, Falls, and Lee Counties meets the standards for satisfactory performance. The bank’s level of performance in lending to consumers of differing income levels within the non-MSA AA is more than reasonable. Demographic information indicates 22% of the AA households are low-income, while 14% are moderate-income. The bank originated 30% of its consumer loans to low-income borrowers and 15% to moderate-income borrowers. See the table below for further details.

BORROWER DISTRIBUTION OF CONSUMER LOANS - NON-MSA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	22		14		18		46	
	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>
Total	30	15	15	19	35	36	20	30

**A household is defined as "All persons occupying a housing unit."*

The table below 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 28% of sampled loans secured by residential real estate to LMI borrowers.

RESIDENTIAL REAL ESTATE LOANS - NON-MSA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	17		16		22		45	
	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>
Total	11	6	17	10	22	30	50	54

**Families are defined as "Householders related by birth, marriage, or adoption."*

CNB’s distribution of loans to small businesses is reasonable. According to U.S. Census information, 94% of businesses in the non-MSA AA have revenues of less than \$1 million. Approximately 85% of the business loans CNB originated in the AA had revenues below \$1 million. As a dollar amount, the volume is significantly lower at 31%. 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 on the following page.

DISTRIBUTION OF LOANS TO BUSINESSES – NON-MSA		
<i>Business Revenues</i>	<i>≤\$1,000,000</i>	<i>>\$1,000,000</i>
% of AA Businesses	94	6
% of Bank Loans in AA #	85	15
% of Bank Loans in AA \$	31	69

CNB’s distribution of loans to small farms is reasonable. According to U.S. Census information, 98% of farms in the non-MSA AA have revenues of less than \$1 million. One hundred percent of the agricultural loans CNB originated in the non-MSA AA had revenues below \$1 million.

DISTRIBUTION OF LOANS TO FARMS – NON-MSA		
<i>Farm Revenues</i>	<i>≤\$1,000,000</i>	<i>>\$1,000,000</i>
% of AA Businesses	98	2
% of Bank Loans in AA #	100	0
% of Bank Loans in AA \$	100	0

Metropolitan Statistical Area

CNB’s level of lending to borrowers of different incomes within Williamson and Travis Counties meets and exceeds the standards for satisfactory performance. CNB’s level of performance in lending to consumers of differing income levels within the MSA AA is more than reasonable. Demographic information indicates 28% of AA households are LMI. The bank originated 75% of its consumer loans, 90% 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	14		14		20		52	
	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>
Total	30	23	45	67	25	10	0	0

**A household is defined as "All persons occupying a housing unit."*

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 31% of the MSA AA consists of LMI families. In line with Census data, CNB originated 30% of sampled loans secured by residential real estate to LMI borrowers.

RESIDENTIAL REAL ESTATE LOANS - MSA								
<i>Borrower Income Level</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
% of AA Families	14		17		25		44	
	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>
Total	20	12	10	2	20	18	50	68

**Families are defined as "Householders related by birth, marriage, or adoption."*

Geographic Distribution of Loans

CNB's performance in lending to borrowers of different geographies meets the standards for satisfactory 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 three 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 10% of the MSA AA households are located in moderate-income census tracts. CNB originated 25% of both the number and 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>CT Income Level</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
% of AA Households	0		10		61		29	
	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>
Total	0	0	25	25	75	75	0	0

**A household is defined as "All persons occupying a housing unit."*

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 8% of the owner occupied residential real estate in the bank's MSA AA is located in moderate-income census tracts. Comparatively, CNB originated 11% of the number and 25% 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								
<i>CT Income Level</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
% of AA Owner-Occupied	0		8		65		27	
	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>
Total	0	0	11	25	82	69	7	6

Responses to Complaints

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

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.