



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 6, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Citizens National Bank
Charter Number 10359**

**116 South Lincoln
Arlington, Kansas 67514**

**Comptroller of the Currency
Omaha North Field Office
13710 FNB Parkway, Suite 110
Omaha, Nebraska 68154**

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.

DESCRIPTION OF INSTITUTION

The Citizens National Bank ("the bank") is a \$38 million bank headquartered in Arlington, Kansas. The bank has three locations including the main office in Arlington and branches in McPherson and Attica, Kansas. The bank does not have any automated teller machines. The bank is a wholly owned subsidiary of Citizens National Corporation, a four-bank holding company located in Wisner, Nebraska. The Citizens National Bank of Wisner, Elkhorn Valley Insurance Agency, Inc., The First National Bank of Belden, and Bank of Leigh are affiliates of this bank. On December 31, 2002, the holding company had total assets of \$116 million. There have been no changes in the bank's corporate structure.

The bank is a full service bank offering a variety of loan products with an emphasis on agricultural and consumer loans. On December 31, 2002, net loans represented 71% of the bank's total assets. The bank's \$27 million loan portfolio has the following composition: 42% agricultural; 30% other real estate; 10% consumer; 10% commercial; and 8% residential real estate. The bank has not changed any existing loan products, or offered any new products since the previous CRA examination. Examiners determined the primary loan products, based on the number and dollar volume of loans currently in the bank's portfolio, were agricultural and consumer loans.

The bank's financial condition, size, and local economic conditions allow it to help meet the credit needs of its assessment area. At the October 26, 1998 CRA examination, examiners assigned a "Satisfactory" rating.

DESCRIPTION OF ASSESSMENT AREA

The bank has three assessment areas (AAs). The AA for the main office in Arlington is block numbering area (BNA) 17 in Reno County, Kansas. The AA for the branch office in McPherson contains BNAs 9881 through 9887 in McPherson County, Kansas. The AA for the branch in Attica contains BNAs 9681 and 9682 in Barber County, Kansas and BNAs 9916 through 9918 in Harper County, Kansas. The 13 BNAs are comprised of 11, or 85%, middle-income tracts and 2, or 15%, upper-income tracts. The AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income BNAs. The Kansas statewide non-MSA median family income for 2002 is \$44,200. The statewide Kansas unemployment rate for January 2003 is 4.7% compared to 6% nationwide.

Examiners made one community contact with a local business professional in the AA. The contact identified agricultural and consumer loans as two of the area's primary credit needs. The contact further stated that the area banks are meeting these credit needs.

Located in central Kansas, the Arlington AA has a population of 2,816. The income distribution for families in the AA is 19% low-income, 20% moderate-income, 29% middle-income, and 32% upper-income. The McPherson AA, also located in central Kansas, has a population of 27,268. The income distribution of families for this AA is 11% low-income, 17% moderate-income, 24% middle-income, and 48% upper-income. The Attica AA is located in south central Kansas and has a population of 12,998. The income distribution of families is 20% low-income, 21% moderate-income, 24% middle-income, and 35% upper-income. Twenty-six other banks and several financial institutions with offices in the AA provide competition. The asset sizes for these institutions range from \$4 million to \$352 million. With 2% of the area's deposits, the bank ranks 14th in deposit market share.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's level of lending is satisfactory. The quarterly average loan-to-deposit ratio over the past 12 quarters ending December 31, 2002 is 79%, slightly above the average ratio for peer banks. For peer banks, examiners analyzed the ratios over the same time period for a group of banks, which derive the majority of their deposits from the AA. The average ratio for this group is 78%. The ratios for the peer group range from 53% to 92%.

Lending in Assessment Area

The bank's lending in its AA is satisfactory as it extends a majority (88% of the number and 55% of the dollar) of its loans in the AA. To determine the level of lending in the AA, examiners reviewed a sample of the bank's primary lending products currently in the bank's portfolio.

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

The level of lending to farms of different sizes and consumers of different incomes is excellent. Examiners utilized the sample used to determine the bank's level of lending in the AA to determine the bank's performance in this area. The community contact identified agricultural loans and consumer loans as two of the area's primary credit needs.

The bank's level of lending to farms of different sizes is good. All loans in the sample are to farms with annual gross revenues of \$1 million or less. The bank's performance exceeds Dunn & Bradstreet 2002 business demographic data that shows 97% of the farms in the AA have annual gross revenues of \$1 million or less. Further breakdown of the sample shows 55% of the loans were to farms with revenues of less than \$250 thousand and 51% to farms with revenues under \$100 thousand.

Lending to consumer borrowers of different incomes is excellent. Lending to low-income borrowers is excellent at 32% of the sample compared to household demographics of 23%. Lending to moderate-income borrowers representing 16% of the sample is well above demographic data showing 11% and represents excellent performance.

Geographic Distribution of Loans

An analysis of the distribution of loans within the assessment areas would not be meaningful as the assessment areas do not include any low- or moderate-income tracts.

Responses to Complaints

The bank has not received any CRA related complaints since the previous CRA examination.

Fair Lending Review

An analysis of 2002 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 be conducted in connection with the CRA evaluation this year.