



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

June 30, 2008

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Citizens National Bank of Meridian  
Charter Number: 7266

512 22nd Avenue  
Meridian, MS 39301-5853

Office of the Comptroller of the Currency

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100 Concourse Parkway Suite 240  
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**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: Satisfactory**

Summarize the major factors supporting the institution's rating.

- Citizens National Bank (CNB's) loan-to-deposit ratio is reasonable.
- A substantial majority of CNB's loans were made within their assessment area (AA).
- CNB's distribution of loans is good. Their distribution of small loans to businesses, small loans to farms and HMDA loans is good.
- CNB's geographic distribution of loans is excellent. Their distribution of small business, small farm and HMDA loans is excellent.
- CNB's level of CD activities is adequate based on the number of CD services provided and the number of organizations that benefited.

## **Scope of Examination**

CNB qualifies as an Intermediate Small Bank under the CRA regulation and is thus, 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 their AAs through its lending activities. The community development test evaluates a bank's CD lending, qualified investments, and CD services.

Citizens NB is subject to filings under the Home Mortgage Disclosure Act (HMDA). The bank also decided that they would continue to collect data on their small loans to businesses and farms subject to CRA data collection. Therefore, our analysis of the bank's lending performance included all residential real estate loans subject to filing under HMDA and all small loans to businesses and farms subject to CRA.

The evaluation period under the lending test covers loans originated from January 1, 2005 through December 31, 2007. Our evaluation period for CD activities including CD loans, investments and services from August 23, 2005 through June 30, 2008.

## Description of Institution

Citizens NB (CNB) is a \$1.1 billion intrastate financial institution headquartered in Meridian, MS. CNB operates 27 banking offices and 20 automated teller machines (ATMs) located in branch offices throughout the state of Mississippi. In addition, CNB also has 44 ATM machines located in CEFCO convenience stores and 2 remote ATMs. The bank has established banking hours with several locations opened on Saturday.

As of March 31, 2008, CNB reported total assets of \$1.1 billion and Tier I Capital of \$104 million, representing 9.25 percent of assets. There are no legal, financial or other factors that impede the bank's ability to help meet the credit needs within its assessment areas.

CNB is primarily a commercial lender. As of 3/31/08, the bank's loan portfolio was comprised of the following loans: real estate (including commercial real estate) 80.89 percent, commercial 13.96 percent, individual 4.40 percent, agricultural 0.30 percent and other loans 0.45 percent.

CNB has 4 assessment areas including the Hattiesburg and Jackson MSAs in their entirety and 4 counties in the MS portion of the Memphis, TN-MS-AR MSA AA. CNB also has a non-MSA AA which includes 9 counties in the eastern region of the state. The bank's primary market area is the non-MSA AA which includes Lauderdale County (where the bank is headquartered) and the surrounding counties.

CNB's is ranked number 1 in deposit market share in the non-MSA AA with a market share of 13.72 percent. There are 20 financial institutions with banking offices in the area. Major competition is provided by larger regional institutions such as Regions Bank, Trustmark, Cadence and Bancorp South.

During 2006, the bank opened offices in Madison, West Hattiesburg, and Olive Branch, MS. The bank plans to open an additional office in Southaven, MS in late 2008.

CNB is wholly owned by Citizens National Banc Corp. In addition to CNB, Citizens Corp. also formed a subsidiary trust named Citizens National (MS) Statutory Trust I. MS primarily serves as a stock issuance and transfer agency for the corporation and has no CRA impact on the bank's performance. As of 12/31/07, the Corp. had assets of 99 million, of which their investment in common stock of CNB accounted for 94 million or 95 percent.

CNB's CRA performance was last evaluated as of August 22, 2005. The bank's overall performance was rated "Satisfactory".

## Description of Assessment Area

CNB has 4 assessment areas in MS including the Hattiesburg, Jackson, and Memphis MSAs and the non-MSA AA. The bank's primary market area is the non-MSA AA which consists of 9 counties in MS in their entirety including Attala, Clarke, Jones, Lauderdale, Leake, Lowndes, Neshoba, Noxubee and Wayne. Of CNB's 27 banking offices, 20 branches are in the non-MSA AA, 3 in Hattiesburg MSA, 3 in the Jackson MSA and 1 in the MS portion of the Memphis MSA.

The non-MSA AA is CNB's largest AA. It contains a significant percentage of the bank's deposit base, lending activity and branching network. The non-MSA AA consists of 70 census tracts, of which 3 are low-income and 16 are moderate-income. The bank's AA also includes 40 middle-income census tracts, of which 39 are designated as distressed or underserved, and 11 upper-income census tracts. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude any low- or moderate-income geographies. Specific demographic and economic data for this area follows.

### Non-MSA AA

Demographic Information for Full Scope Area: Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	70	4.29	22.86	57.14	15.71	0.00
Population by Geography	325,709	2.73	18.30	58.35	20.61	0.00
Owner-Occupied Housing by Geography	90,944	1.58	15.02	62.60	20.80	0.00
Business by Geography	37,963	5.44	21.08	56.59	16.88	0.00
Farms by Geography	735	2.04	15.92	66.12	15.92	0.00
Family Distribution by Income Level	87,931	22.79	15.55	19.42	42.23	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	33,716	4.80	24.30	58.33	12.58	0.00
Median Family Income HUD Adjusted Median Family Income for 2007 Households Below Poverty Level		33,550 38,800 22%	Median Housing Value Unemployment Rate (2000 US Census)	57,335 3.10%		

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2007 HUD updated MFI

In August 2008, the state of MS had the 3<sup>rd</sup> highest unemployment rate among all the states at 7.9 percent compared to the national average of 6.1 percent. In the non-MSA AA, the unemployment rates ranged from a low of 6.5 percent for Jones County to a high of 14.8 percent for Noxubee County. The local economy is fueled by manufacturing, followed by health care, retail trade and public administration. Also, gaming and the military play an important part in the local economies. However, manufacturing continues to deteriorate as auto and timber-related producers are hurt by

the national downturn.

Major competition in this AA is provided by institutions such as Regions, Trustmark, Cadence and Citizens of Philadelphia. There are 20 financial institutions operating in the area with 141 banking offices and \$4.7 billion in deposits. CNB is ranked number 1 in deposit market share with a market share of 13.72 percent. The nearest competitor is a much larger regional bank that has a market share of 13.08 percent.

The opportunity for CNB to make CD loans and investments and provide CD services to the non-MSA AA is somewhat limited. We identified a few CD organizations that operate in the area that provide affordable housing or community services to low- or moderate-income individuals. We also identified a CDC and a small business development corporation that operate in the area.

In conjunction with this exam, we contacted 2 community organizations to help us assess the credit needs in the community. The types of organizations contacted included a small business development corporation and a city's community development department. The needs identified by these organizations included more LIHTC (low-income housing tax credit) projects, micro-lending loan programs for start-up businesses, and funding for developers to build low-income housing. Also, the organizations indicated that banks should provide more credit counseling to individuals and businesses that have credit problems.

## Conclusions with Respect to Performance Tests

The bank's performance under the Lending Test is rated "**Satisfactory**".

We selected the non-MSA AA to receive a full-scope review because it represents a significant portion of the bank's lending activity, deposit base and branching network. Approximately 75 percent of the bank's deposit base, 74 percent of their branching network and 81 percent of their lending activity during this evaluation period was in the non-MSA AA.

CNB has 3 other assessment areas including the Hattiesburg and Jackson MSAs in their entirety. Also, the bank delineated 4 counties in MS in the Memphis, TN-MS-AR MSA as an assessment area.

During this evaluation period, CNB originated 891 HMDA loans, 1,937 small business loans and 348 small farm loans in the non-MSA AA. In terms of evaluating the bank's lending performance, small business loans was given the most weight followed by HMDA loans and then small farm loans. This weighting is reflective of the bank's primary lending strategy and their overall lending performance during this evaluation. The bank's primary line of business is commercial loans. Also during this evaluation period, CNB originated more small business loans than HMDA or small farm loans.

### LENDING TEST

CNB's loan-to-deposit (LTD) ratio is reasonable and a substantial majority of their loans are made within their AAs. The bank's geographic distribution of loans is excellent. Their distribution of loans by income level is good.

#### Loan-to-Deposit Ratio

CNB's loan-to-deposit ratio is reasonable. Since our last examination, CNB's quarterly LTD average is 70.28 percent compared to a customized peer average of 80.15 percent. Peer banks are comprised of all banks in MS, regardless of size. Since the last examination, CNB's LTD ratio has steadily increased from a low of 63 percent 3/31/06 to a high of 81 percent 6/30/08.

#### Lending in Assessment Area

A substantial majority of CNB's loans were made within their AA. Overall, 90 percent of their loans were made in their AAs. By loan product, 89 percent of HMDA loans, 93 percent of small business loans and 83 percent of small farm loans were made within their AAs. This had a positive impact on the geographic distribution of loans within the AAs.

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

Overall, CNB's distribution of loans is good. Their distribution of small loans to businesses and farms is good. Their distribution of HMDA loans is good.

<b>Table 1 - Borrower Distribution of Loans to Businesses</b>				
<b>Non-MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	33.90	2.48	63.46	100%
% of Bank Loans in AA by #	67.99	19.62	12.39	100%
% of Bank Loans in AA by \$	48.61	41.23	10.16	100%

*Source: Data collected by bank; 2007 Dunn and Bradstreet data.*

CNB's percent of loans to small businesses significantly exceeds the percent of small businesses in the AA. However, this percentage is somewhat misleading since a significant percentage of the revenues are unknown or unavailable. However, if the loan size is used as proxy for revenues, indications are that a significant portion of CNB's loans were small dollar loans made to small businesses. As indicated in the following chart, a substantial portion of CNB's loans were for amounts less than \$100 thousand.

<b>Table 2 - Borrower Distribution of Loans to Businesses by Loan Size</b>				
<b>Non-MSA AA</b>				
Loan Size	Number of Loans	Percent of Number	Dollar Volume of Loans (000's)	Percent of Dollar Volume
< \$100,000	1,556	80.33	44,422	26.72
\$100,001 - \$250,000	215	11.10	36,040	21.68
> \$250,001 < \$1,000,000	166	8.57	85,765	51.60

*Source: Data collected by bank.*

Based on 2006 peer data, CNB's market share of loans to small businesses significantly exceeds their overall market of loans to all businesses. In 2006, CNB had a 6.91 market of small loans to all businesses compared to a 9.37 percent market share for loans to small businesses.

CNB's percent of lending to small farms is good. The bank's percent of loans to small farms is near the demographic comparator.

Based on 2006 peer data, CNB's market share of loans to small farms was 15.80 percent compared to their overall market share of 17.41 percent of loans to all farms. Also, a substantial portion of CNB's loans were for amounts less than \$100 thousand.

<b>Table 3 - Borrower Distribution of Loans to Farms Non-MSA AA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	94.98	1.29	3.73	100%
% of Bank Loans in AA by #	83.62	6.03	10.35	100%
% of Bank Loans in AA by \$	79.04	9.73	11.23	100%

*Source: Data collected by bank; 2007 Dunn and Bradstreet data.*

<b>Table 4 - Borrower Distribution of Loans to Farms by Loan Size Non-MSA AA</b>				
Loan Size	Number of Loans	Percent of Number	Dollar Volume of Loans (000's)	Percent of Dollar Volume
< \$100,000	310	89.34	7,298	79.04
\$100,001 - \$250,000	31	8.93	4,910	9.73
> \$250,001 < \$1,000,000	7	1.73	2,708	11.24

*Source: Data collected by bank.*

Overall, the bank's distribution of HMDA loans is good. Their distribution of loans to low-income borrowers significantly exceeds the percent of low-income families in the AA. Their distribution of loans to moderate-income borrowers is near the demographic comparator.

<b>Table 5. Distribution of HMDA Loans by Borrower Income Level Non-MSA AA</b>			
Borrower Income Designation	Percent of Number	Percent of Dollar Volume	Percent of Families in the AA
Low-Income	3.63	1.34	2.36
Moderate-Income	11.41	4.87	11.80
Middle-Income	14.40	10.57	16.22
Upper-Income	70.56	83.21	69.62

*Source: Data collected by the bank and 2007 HUD Updated MFI. Income information was not available on 13.47% of the loans.*

CNB's market share to both low and moderate-income borrowers is lower than their overall market share. Based on 2006 peer data, CNB had an overall market share of HMDA loans of 2.20 percent compared to a 1.17 percent and 1.58 percent market share to low- and moderate-income borrowers, respectively.

Based on limited-scope reviews, CNB's distribution of loans in the Hattiesburg, Jackson and Memphis MSA AAs is weaker than their performance in the non-MSA AA. However, this did not have a significant impact on the overall lending test rating as these areas did not represent a significant portion of the bank's lending activity. Also, we did not evaluate the bank's small farm lending performance in the Memphis MSA AA



as CNB originated a nominal number of small farm loans in this AA and any analysis would have been meaningless.

### **Geographic Distribution of Loans**

Overall, CNB's geographic distribution of loans is excellent. Their distribution of small business, small farm and HMDA loans is excellent. Based on our analysis of the bank's geographic distribution of loans, we did not detect any conspicuous or unexplained gaps in their lending patterns. CNB made loans in all but one census tract (an upper-income) in the non-MSA AA.

Based on the number of loans originated, CNB's geographic distribution of small loans to businesses is excellent. Their percentage of lending in both low- and moderate-income geographies exceeds the percent of businesses located in these areas.

Based on 2006 peer data, CNB's market share in both low- and moderate-income geographies exceeds their overall market share of loans in all geographies. In low- and moderate-income geographies, CNB's market share was 12.50 percent and 8.66 percent, respectively compared to an overall market share of 6.91 percent.

<b>Table 6 – Geographic Distribution of Small Business Loans Non-MSA AA</b>			
Census Tract Designation	Percent of Number	Percent of Dollar Volume	Percent of Total Businesses
Low-Income	9.34	19.36	5.41
Moderate-Income	24.37	24.24	21.08
Middle-Income	44.30	33.84	56.77
Upper-Income	21.99	22.56	16.75

*Source: Data collected by the bank and 2000 U.S. Census data*

CNB's small farm lending performance is also excellent. In low-income geographies, the bank's percent of lending is lower than the percent of farms located in these areas. However, the bank's lower performance in these geographies is mitigated by the nominal number of farms in these areas. There are 3 low-income geographies in the non-MSA AA containing a total of 14 farms. Given this fact, CNB's lending opportunities in these areas are limited and therefore their performance is considered excellent. In moderate-income geographies, CNB's percent of loans significantly exceeds the percent of farms in these areas.

<b>Table 7 – Geographic Distribution of Small Farm Loans Non-MSA AA</b>			
Census Tract Designation	Percent of Number	Percent of Dollar Volume	Percent of Total Farms
Low-Income	0.57	0.03	2.01
Moderate-Income	30.17	35.24	16.93
Middle-Income	60.06	52.15	65.14

Upper-Income	9.20	12.58	15.93
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*Source: Data collected by the bank and 2000 U.S. Census data*

Based on 2006 peer data, CNB's small farm loan market share in both low- and moderate-income geographies exceeds their overall market share of loans in all geographies. In low- and moderate-income geographies, their market share was 50.00 percent and 22.07 percent, respectively compared to an overall market share of 17.41 percent.

CNB's distribution of HMDA loans is also excellent. Their distribution of lending in both low- and moderate-income geographies exceeds the percent of owner-occupied units in these areas.

<b>Table 8 – Geographic Distribution of HMDA Loans Non-MSA AA</b>			
Census Tract Designation	Percent of Number	Percent of Dollar Volume	Percent of Owner-Occupied Units
Low-Income	1.46	0.64	1.05
Moderate-Income	11.11	6.78	11.02
Middle-Income	52.08	41.40	46.98
Upper-Income	35.35	51.18	40.94

*Source: Data collected by the bank and 2000 U.S. Census data*

Based on 2006 peer data, CNB's market share of loans in low-income geographies is 5.11 percent which significantly exceeds their overall market share of loans in all geographies of 2.20 percent. Their market share of loans in moderate-income geographies of 1.89 percent is near their overall market share.

Based on limited-scope reviews, CNB's geographic distribution of loans in the Hattiesburg, Jackson and Memphis MSA AAs is weaker than their performance in the non-MSA AA. However, this did not have a significant impact on the overall lending test rating as these areas did not represent a significant portion of the bank's lending activity. Also, we did not evaluate the bank's small farm lending performance in the Memphis MSA AA. CNB originated a nominal number of small farm loans in this AA and any analysis would have been meaningless.

### **Responses to Complaints**

During this evaluation period, CNB had no CRA related complaints.

### **COMMUNITY DEVELOPMENT TEST**

CNB's level of CD activities is adequate based on the type of activities provided and the number of organizations that benefited.

The vast majority of the CD activities provided during this evaluation period were CD services provided to qualified CD organizations. Many of these services were provided to organizations that serve low- and moderate-income areas, as well as, underserved or distressed areas. The bank's AA includes 40 middle-income census tracts, of which 39 are designated as distressed or underserved. The bank also made some grants/donations to qualified CD organizations to provide affordable housing and community services to low- or moderate-income individuals.

### **Number and Amount of Community Development Loans**

There were no CD loans submitted for consideration.

### **Number and Amount of Qualified Investments**

The bank's level of CD investments in the non-MSA AA is adequate based on the limited opportunities in the AA. During this evaluation period, CNB made 12 grants and/or donations in the non-MSA AA totaling \$6 thousand to qualified CD organizations. The investments were primarily made to organizations that provide community services or affordable housing to low- or moderate-income individuals. Also, the bank donated \$10 thousand of property to a CD organization to build affordable housing for a low- or moderate-income individual.

Based on the limited-scope reviews, the bank's level of CD investments in the Hattiesburg, Jackson and Memphis MSA AAs is not inconsistent with their overall adequate performance in the non-MSA AA.

### **Extent to Which the Bank Provides Community Development Services**

CNB provided a high level of CD services during this evaluation period which had a positive impact on the CD rating. This assessment is based on the number of services provided and the number of employees and/or directors that participated in providing these services.

The vast majority of the CD services provided consisted of providing marketing assistance to qualified CD organizations through the bank's Dream weaving program. The Dream weaving program provides free radio advertising to qualified CD organization by promoting the organization's mission, their fund raising efforts and upcoming events. CNB pays for the radio advertisement and a bank employee is provided to read the radio script for the organization. During this evaluation period, CNB provided advertising assistance to 22 CD organizations.

Other CD services provided included serving on the board, loan committee, family services committee, finance committee or vice president for organizations that provide affordable housing or community services for low- or moderate-income individuals or that stabilize or revitalize low- or moderate-income areas.

During this evaluation period, 10 employees and/or directors provided financial services to 11 different CD organizations.

Based on the limited-scope reviews, the bank's level of CD services in the Hattiesburg, Jackson and Memphis MSA AAs is not inconsistent with their overall high level of performance in the non-MSA AA.

### **Responsiveness to Community Development Needs**

During this evaluation period, CNB demonstrated satisfactory responsiveness to meeting the needs of their communities through their CD activities. CNB provided CD services and investments to several organizations that provide affordable housing or community services to low- or moderate-income individuals, economic growth, or business development to the non-MSA AA.

### **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.