



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

April 21, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Citizens National Bank Of Hillsboro
Charter Number 4900**

**200 E. Elm Street
Hillsboro, TX 76645**

**Comptroller of the Currency
ADC - Dallas South
500 North Akard Street Suite 1600
Dallas, TX 75201**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The Citizens National Bank of Hillsboro's (CNB) lending performance is satisfactory given its size, financial condition, and known credit needs of its assessment area. The primary factors supporting the bank's overall rating include:

- A reasonable average loan-to-deposit ratio of 26.0% when compared to similarly situated banks in the assessment area.
- A substantial majority of CNB's loans are within its assessment area. Based on a sample of consumer, residential real estate, and agriculture loans originated since March 31, 1998, 93% of the number and 91% of the dollar volume of loans are in the assessment area.
- The distribution of loans to individuals of varying incomes reflects a reasonable penetration.
- Lending patterns are reasonably distributed throughout the assessment area.

DESCRIPTION OF INSTITUTION

CNB is headquartered in the city of Hillsboro, Hill County, Texas approximately 55 miles south of Fort Worth, Texas. As of March 31, 2003, the bank's total assets were \$80.4 million, total gross loans were \$15.0 million, and total deposits were \$61.5 million. The bank does not have any branches. Drive-thru and ATM services are provided at the main office. Hours of operation are commensurate with other area banks. The bank offers a full range of loan products and deposit services, with an emphasis on consumer and residential real estate loans. As reflected in Table 1 below, loans as of March 31, 2003 are distributed as follows:

Table 1

Loan Category	Amount (\$000's)	% of Total
Consumer	6,162	40.97
Residential Real Estate	3,068	20.40
Commercial	2,821	18.76
Commercial Real Estate	1,644	10.93
Agricultural Production	1,106	7.35
Other Real Estate Loans	174	1.16
Other	65	0.43
Total	15,040	100.00

CNB serves the assessment area from its one location. CNB is not located in a Metropolitan Statistical Area. There is strong competition from other area community banks, regional banks, thrifts, credit unions, and other non-financial institutions. CNB has no impediments, legal or otherwise, which hinders the bank's ability to help meet the credit needs of its assessment area.

DESCRIPTION OF HILL COUNTY

The assessment area for CNB consists of Hill County. The assessment area complies with the legal requirements of CRA and contains a total of twelve block-numbering areas (BNAs). Nine of the BNAs are classified as middle-income, two as moderate, and one as upper. There were no low income BNAs in the assessment area. The assessment area did not arbitrarily exclude any low-to-moderate income geographies. Derived from the 1990 Census Bureau and 2002 Housing and Urban Development Agency (HUD) data, Table II reflects the assessment area demographics as follows:

Table II

Demographic and Economic Characteristics of the Assessment Area	
Population	
Number of Families	7,502
Number of Households	10,357
Geographies	
Number of Census Tracts/BNA	
# Low-Income BNA	0
# Moderate-Income BNA	2
# Middle-Income BNA	9
# Upper-Income BNA	1
Median Family Income (MFI)	
1990 MFI for Assessment Area	\$24,585
2002 HUD Adjusted MFI	\$36,100
Economic Indicators	
Unemployment Rate	7.1
1990 Median Housing Value	\$46,050
% Of Households Below Poverty Level	22.53

The assessment area has a diversified employment base. Hillsboro is the county seat for Hill County and benefits from municipal and county employment. Prime Outlet, a large retail outlet mall, is the assessment area's major employer. Other major employers include Hillsboro Independent School District, Hill County Electrical Cooperative, Flowers Construction, Hill College, and Hill Regional Hospital. Agriculture also continues to provide a major source of revenue and employment.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

CNB's loan-to-deposit ratio is reasonable and commensurate with its size, competition, available resources, lending activities, as well as the demographics of the assessment area. The average loan-to-deposit ratio for the last five years is 25.99%. This compares favorably to the 21.24% average loan-to-deposit ratio for one similarly situated bank within the assessment area.

Lending in Assessment Area

CNB's lending in its assessment area meets the standard for satisfactory performance. The bank has made a substantial majority of its loan within its assessment area, based on a review of samples of CNB's three loan types. We reviewed 20 residential real estate loans, 20 agriculture loans, and 20 consumer loans made since the previous CRA examination. For all loans combined, 93% of the number of loans and 91% of the loan dollars were made in the assessment area. See table III for a breakdown by loan sample.

Table III

Loan Type	Number	% in Assessment Area	\$(000s)	% in Assessment Area
Residential	20	95	1,174	89
Agriculture	20	95	333	97
Consumer	20	90	178	92
Total	60	93	1,685	91

Lending to Borrowers of Different Incomes

CNB has a satisfactory record of lending to borrowers of different incomes. Our analysis encompassed 60 borrowers within the consumer, residential real estate, and agriculture samples.

Our residential real estate and consumer loan samples indicated that lending to borrowers with low- to moderate-income accounted for 23.33% of the number and 7.39% of the dollar volume. See Table IV for a breakdown. The low- to moderate-income level reflects the HUD's 2002 median family income level of \$36,100 for Hill County.

Table IV

Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Residential Real Estate			1	3.04	5	13.37	14	83.59
Consumer	2	9.70	8	26.43	7	41.99	3	21.88
Agriculture	2	2.03	1	5.83	3	6.14	14	86.00
Total	4	1.39	10	6.00	15	15.02	31	77.58

Geographic Distribution of Loans

We performed an analysis of the geographic distribution of loans using data compiled by CNB since March of 1998. Table V reflects the geographic distribution of loans within the block numbering areas in the assessment area. The table reflects a reasonable distribution of loans within the assessment area.

Table V

Census Tract Income Level	MODERATE		MIDDLE		UPPER	
% of AA Households	15.00		77.45		7.54	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total Loans Since 1998	23.62	13.49	60.75	68.48	15.63	18.03

Responses to Complaints

No complaints concerning the Community Reinvestment Act have been received since the prior examination.

Fair Lending Review

An analysis of the years of 1998 through 2002 public comments and consumer complaint information and small business and small farm lending data 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 need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1998.