



## **INTERMEDIATE SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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### **PUBLIC DISCLOSURE**

**January 29, 2007**

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

**Citizens National Bank of Texas  
Charter Number 13516**

**200 N. Elm Street  
Waxahachie, TX 75165**

**Comptroller of the Currency  
Dallas Field Office  
17300 Dallas Parkway, Suite 2020  
Dallas, TX 75248**

**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”**

The bank’s performance rating is supported by the following factors:

- The bank’s average loan-to-deposit ratio exceeds the standards for satisfactory performance and averaged 91% during the evaluation period.
- A majority of loans originated during the evaluation period were made in the bank’s assessment areas.
- Lending to borrowers of different income levels, particularly low- and moderate-income borrowers, and businesses of different sizes is strong.
- Citizens National Bank of Texas demonstrates satisfactory responsiveness to community development needs of its assessment areas.
- There have been no complaints filed with respect to the bank’s CRA performance and there is no evidence of illegal discrimination.

## **SCOPE OF EXAMINATION**

Citizens National Bank of Texas (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 its assessment area (AA) through its lending activities. The community development test evaluates a bank’s CD lending, qualified investments, and CD services.

The evaluation under the Lending Test covers loans originated over a four year period between December 31, 2002 and December 31, 2006. CNB has two separately delineated AAs. However, this Performance Evaluation only considers the larger of the two AA’s for the Lending Test since fourteen of the bank’s fifteen locations and over 99% of loans and deposits are held in this AA. Performance under the lending test was assessed based on a review of the bank’s primary product types, which are discussed in further detail in the following section. CD activities were evaluated over the same time period and encompassed both of the bank’s AAs.

## DESCRIPTION OF INSTITUTION

### Description of Institution

CNB is wholly-owned by First Citizens Bancshares, Inc., a single-bank holding company. CNB's main office is located in Waxahachie, Texas, approximately 25 miles due south of Dallas, TX. The city of Waxahachie sits near the convergence of Interstate Highway 35 and US Highway 287, providing easy access to both Dallas and Fort Worth. In addition to the home office location, the bank has 14 additional branch locations, primarily serving southern portions of the Dallas-Fort Worth-Arlington metropolitan area.

The bank has no financial or legal obstacles affecting its ability to meet the community credit needs. The bank was rated "Satisfactory" in its previous CRA public evaluation dated October 25, 2002.

CNB's primary competition consists of various locally-owned community banks and branches of larger community, regional, and multi-national banks which operate in the bank's AAs. The bank is a full service institution providing various loan and deposit products. As of December 31, 2006, CNB had total assets of \$443 million, total loans of \$343 million, and total deposits of \$396 million. Loans represent 77% of assets and 87% of deposits as of December 31, 2006. The bank's loan portfolio is weighted toward commercial entities with a focus on real estate secured-lending. The following table portrays the principal loan mix of the bank:

<b>Loan Category (as of December 31, 2006)</b>	<b>Balance 000s</b>	<b>Portfolio Allocation</b>	<b>Number Of Loans</b>	<b>Percentag e of Number</b>
Commercial Real Estate	\$221,216	64%	603	13%
Residential Real Estate	\$42,188	12%	2037	40%
Commercial Purpose	\$25,987	8%	384	7%
Consumer Installment	\$12,104	4%	1980	39%
Agriculture (Purpose/Real Estate)	\$1,801	1%	23	1%
Other: State/Political Subdivisions	\$36,507	10%	35	0%
Other	\$2,712	1%	16	0%
<b>Total</b>	<b>\$342,516</b>	<b>100%</b>	<b>5,078</b>	<b>100%</b>

### Primary Lending Products

Based on the above table, the commercial real estate and residential real estate portfolios were selected for review at this examination based on the dollar amount of loans outstanding. The Consumer Installment portfolio was also selected based on the number of loans originated. These three products are considered the bank's primary lending products and will be used in the assessment of the bank's CRA performance.

## DESCRIPTION OF ASSESSMENT AREAS

CNB has two separate AAs, both of which are located in the Dallas-Plano-Irving, TX MSA (19124) and Fort Worth-Arlington, TX MSA (23104). The larger of the two AAs is home to fourteen of the bank's fifteen locations and is where over 99% of its loans and deposits are serviced. The largest of the two assessment areas includes all of Ellis County, the southern portion of Dallas County, a majority of Kaufman County, and one census tract in Johnson County that borders the western side of Ellis County. The smaller AA includes the northwest portion of Johnson County and the southwest portion of Tarrant County and is home to the bank's Crowley branch. The smaller AA is in close proximity to the larger AA but is not contiguous. The AAs meet the requirements of the regulatory guidelines and do not arbitrarily exclude any low- or moderate-income areas. The following table, based upon 2000 census data, reflects the AA demographics of the largest AA:

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<i>Population</i>	
Number of Families	95,803
Number of Households	120,280
<i>Geographies</i>	
Number of Census Tracts/BNA	70
# - % Low-Income Census Tracts/BNA	0 - 0%
# - % Moderate-Income Census Tracts/BNA	17 - 24%
# - % Middle-Income Census Tracts/BNA	38 - 54%
# - % Upper-Income Census Tracts/BNA	15 - 21%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	56,270
2003 HUD Adjusted MFI	64,933
2004 HUD Adjusted MFI	64,950
2005 HUD Adjusted MFI	64,950
2006 HUD-Adjusted MFI	66,649
<i>Economic Indicators</i>	
Unemployment Rate	2.41%
2006 Median Housing Value	86,726
% of Households Below Poverty Level	8%
<i>Housing Statistics</i>	
Owner-Occupied Units	72%
Rental-Occupied Units	23%
Vacant Housing Units	5%

The bank's AAs primarily serve the southern edge of the MSA, where the population is not as dense as it is in other portions of Dallas, Tarrant, and other northern counties of the MSA. Although not as densely populated, the area is experiencing healthy growth. In the Waxahachie area, where the majority of the bank's operations exist, some of the largest employers include the Walgreens distribution center and other industrial companies such as Owens Corning, Tyler Refrigeration, and US Aluminum. Management also stated that the Baylor Hospital location is a large employer in the local area and is another factor supporting growth of the community.

We determined the credit needs of the community through discussions with a person associated with the economic development for the city of Waxahachie. Although the city's primary economic development goals are to attract new business to the city regardless of size, the director reports that the community provides support to local small businesses. The person specifically pointed out a small business development center at the local community college that provides invaluable services and education to the small business owner. In general, the person felt the local financial institutions did a good job of meeting credit needs of the community.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Lending Test**

CNB's performance under the Lending Test is rated **"Satisfactory"**

Our evaluation of CNB's performance covers the four year period between December 31, 2002 and December 31, 2006. We reviewed a random sample of the bank's primary lending products (residential real estate, commercial real estate, and consumer installment) to assess CRA performance. Overall, CNB meets the standards for satisfactory performance. In general, CNB exhibits a strong loan-to-deposit ratio and a reasonable amount of lending activity within its AAs. In addition, CNB's record of lending to borrowers of different income levels and businesses of different sizes is outstanding. The bank's record of lending in geographies of different income levels does not meet the standard for satisfactory performance. However, the bank's strong performance in lending to borrowers of different income levels and businesses of different sizes compensates for the less than satisfactory geographic distribution of loans by ensuring that the credit needs of low- and moderate-income borrowers and small businesses are being met. More detail for each of the performance criteria under the Lending Test is provided below.

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

CNB's average loan-to-deposit ratio is 91% since the last CRA examination and over the past thirteen quarters ending December 31, 2006. This ratio exceeds the standard for satisfactory performance and compares favorably to that of other similarly situated institutions in the AA over the same time period.

<b>Institution</b>	<b>Average Assets - As of 12/31/06 (000's)</b>	<b>Average LTD Ratio</b>
Vintage Bank, Waxahachie	\$113,850	89%
First National Bank of Burleson	\$133,111	46%
First Financial Bank, NA, Cleburne	\$226,595	54%
Bank of Desoto, NA	\$122,114	68%
Ennis State Bank	\$94,415	78%
<b>Average</b>	-	<b>67%</b>
<i>Citizens National Bank of Texas</i>	<b>\$435,606</b>	<b>91%</b>

### Lending in Assessment Area

The majority of lending is originated within the AA as depicted in the following table. CNB's record of lending within the AA meets the standard for satisfactory performance. Although some of the bank's primary products had a substantial majority of loans originated in the AA, primary weight was given to the commercial real estate product under this performance criterion given this particular product's size in comparison to the others. Of all the loans sampled during this review, 83% by number and 57% by dollar volume were originated in the AA.

<b>Lending in the Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	20	100%	0	0%	20	\$1,755	100%	\$0	0%	\$1,755
Commercial RE	13	65%	7	35%	20	\$4,963	49%	5,244	51%	\$10,207
Consumer	17	85%	3	15%	20	\$151	90%	\$17	10%	\$168
<b>Totals</b>	<b>50</b>	<b>83%</b>	<b>60</b>	<b>17%</b>	<b>60</b>	<b>\$6,869</b>	<b>57%</b>	<b>\$5,261</b>	<b>43%</b>	<b>\$12,130</b>

*Source: Random sample of loans (20 from each product type) selected from the bank's loan trial balance reports*

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

The distribution of loans made to borrowers of different income levels and businesses of different sizes is excellent and exceeds the standard for satisfactory performance. The bank's performance is excellent for the commercial real estate and consumer installment lending products and is reasonable for the residential real estate product. Primary weight was given to the outstanding lending performance of the commercial real estate product since it represents by far the largest product offering of the bank. In addition, consumer installment lending to low- and moderate-income borrowers significantly exceeds the AA's population of low- and moderate-income households. In light of this data, an outstanding rating is warranted under this performance criterion of the lending test. More detail on lending performance of each of the products is discussed below.

<b>Borrower Distribution of Residential Real Estate Loans in the Assessment Area</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	18%	5%	19%	30%	25%	15%	38%	50%
Home Improvement	18%	25%	19%	15%	25%	25%	38%	35%
Refinance	18%	5%	19%	25%	25%	20%	38%	50%
<b>Totals</b>	<b>18%</b>	<b>12%</b>	<b>19%</b>	<b>23%</b>	<b>25%</b>	<b>20%</b>	<b>38%</b>	<b>45%</b>

*Source: Sample of 60 loans (20 from each category above) was randomly selected from the bank's loan trial balance reports.*

Residential real estate lending to borrowers of different income levels is reasonable. Based on the sample reviewed, 12% of residential real estate loans were made to low-income individuals compared to 18% of AA families being low-income. This performance trails the comparator but does not significantly trail the comparator and is considered reasonable. Furthermore, lending to moderate-income individuals exceeds the AA comparator of 19% with 23% of loans originated for moderate-income individuals. Overall, based on this sample, 35% of the bank's residential real estate loans were made to low- and moderate-income individuals compared to 37% of the AA families qualifying as low- or moderate-income. Accordingly, the bank's residential real estate lending performance meets the standard for satisfactory performance.

<b>Borrower Distribution of CRE Loans to Businesses in the Assessment Area</b>			
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unknown
% of AA Businesses*	68%	4%	28%
% of Bank Loans in AA by #	90%	10%	0%
% of Bank Loans in AA by \$	88%	12%	0%

*Source: A random sample of 20 loans selected from the bank's loan trial balance reports. Note that the percentage of AA businesses that do not report revenue data is 28%.*

Lending to businesses of different sizes is excellent. Based on a sample of 20 loans reviewed, 90% of the number of loans originated were made to small businesses (revenues of \$1 million or less). This compares very favorably to AA demographics where only 68% of businesses report annual revenues \$1 million or less. In addition, the dollar volume of loans originated for small businesses is also strong at 88% of originations.

<b>Borrower Distribution of Consumer Installment Loans in the Assessment Area</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
	<b>% of AA Households</b>	<b>% of Number of Loans</b>	<b>% of AA Households</b>	<b>% of Number of Loans</b>	<b>% of AA Households</b>	<b>% of Number of Loans</b>	<b>% of AA Households</b>	<b>% of Number of Loans</b>
<b>Consumer Loans (General Purpose)</b>	18%	75%	19%	15%	25%	10%	38%	0%

*Source: Indicate source, i.e., loan sample or data collected by the bank; U.S. Census data*

Consumer lending to borrowers of different income levels is excellent. Based on a sample of 20 loans reviewed, 75% of loans originated were made to low-income borrowers. This level of lending substantially exceeds the level of low-income households in the AA of 18%. Overall, 90% of the loans reviewed were made to low- and moderate-income borrowers, which is more than double the amount of low- and moderate-income households in the AA.

### **Geographic Distribution of Loans**

There are no low-income geographies in the bank's AA and the bank's performance was assessed solely on its lending performance to moderate-income geographies under this performance criterion.

Based on the sample reviewed, the bank's performance of lending in geographies of different income levels does not meet the standard for satisfactory performance. This conclusion was reached based on the considerably lower penetration levels in moderate income geographies for the commercial real estate and consumer installment lending products compared to the appropriate AA demographic comparators. The penetration of moderate income geographies for the residential real estate product was reasonable. We noted penetration in all but one of the AA's moderate-income geographies. The one moderate income census tract with no active loans is the most remotely-located geography of the AA. More detail on the performance of each product is provided in the tables that follow.



<b>Geographic Distribution of Residential Real Estate Loans in the Assessment Area</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0%	0%	15%	5%	58%	80%	27%	15%
Home Improvement	0%	0%	15%	10%	58%	80%	27%	10%
Refinance	0%	0%	15%	15%	58%	70%	27%	15%
<b>Totals</b>	<b>0%</b>	<b>0%</b>	<b>15%</b>	<b>10%</b>	<b>58%</b>	<b>77%</b>	<b>27%</b>	<b>13%</b>

*Source: Random sample of 60 loans (20 from each category) was selected from the bank's loan trial balance reports*

Residential real estate lending to geographies of different income levels is reasonable. Based on the sample reviewed, 10% percent of loans were made in moderate income geographies which reasonably compares to 15% of owner-occupied housing located in the AA's moderate income geographies.

<b>Geographic Distribution of CRE Loans to Businesses in the Assessment Area</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial RE	0%	0%	22%	12%	51%	70%	27%	18%

*Source: Random sample of 60 loans was selected from the bank's loan trial balance reports*

Commercial real estate lending in geographies in different income levels is less than satisfactory. Based on the sample reviewed, only 12% of loans were located in moderate-income geographies compared to 22% of AA area businesses located in moderate-income geographies.

<b>Geographic Distribution of Consumer Installment Loans in the Assessment Area</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0%	0%	19%	7%	59%	80%	23%	13%

*Source: Random sample of 60 loans was selected from the bank's loan trial balance reports*

Consumer installment lending in geographies of different income levels is less than satisfactory. Based on the sample reviewed, only 7% of loans were located in moderate income geographies compared to 19% of AA households located in moderate income geographies.

## Responses to Complaints

CNB has not received any CRA-related complaints during this evaluation period.

## Community Development Test

CNB's performance under the Community Development Test is rated **"Satisfactory"**

The bank's community development (CD) performance reflects adequate responsiveness to CD needs within the AA. The bank has provided CD through a mix of CD loans, CD services, and qualified investments. More detail on the level of activity within each of the three components of the CD Test is provided below along with the regulatory definition of CD.

According to the definition set forth in 12 CFR 25, Community Development means:

- Affordable housing for low- or moderate-income individuals
- Community services targeted to low- or moderate-income individuals;
- Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or
- Activities that revitalize or stabilize—
  - Low-or moderate-income geographies;
  - Designated disaster areas; or
  - Distressed or underserved non-metropolitan middle-income geographies

### Community Development Loans

CD loans are those loans whose primary purpose is CD as defined above and that are not included for consideration under the bank's Lending Test discussed earlier in this Performance Evaluation.

The level of CD lending is reasonable. During the evaluation period, CNB originated 26 qualifying CD loans totaling \$1,958 thousand or 5% of Tier One Capital as of December 31, 2006. The majority of CD loans extended were to a developer of a sizeable affordable housing development. This development received federal grants based on the requirements that at least 51% of the homes be sold to low- or moderate-income individuals. The bank also extended an interest-free loan to construct a new facility that provides services to low-income abused children.

It is also noted that the bank has extended other loans for the development of other affordable housing and Section 8 housing projects. However, these projects are just outside the bank's AAs. Because of the location of these projects these loans have not been included in the CD lending totals discussed above but this activity was worthy of noting.

## **Qualified Investments**

Qualifying investments include investments, deposits, membership shares, or grants that have as their primary purpose CD. CD investment activity is adequate. During the evaluation period, CNB made 38 donations or grants totaling \$81 thousand to various charitable organizations. These organizations provide services targeted to the local low- and moderate-income population.

## **Community Development Services**

The level of CD services provided is satisfactory. CNB is active in the community and provides services that benefit low- and moderate-income individuals and promote economic development through the financing of small businesses.

The bank's AAs do not contain any low-income census tracts but does include seventeen moderate income census tracts. Management is able to reasonably ensure that its banking services, including low-cost checking accounts, are available to low- and moderate-income individuals with three of its branch locations, including ATMs, located in moderate income geographies. To further ensure adequate access to banking services, bank locations are staffed with bilingual employees and product literature is bilingual as well.

Furthermore, the bank's staff has been active during the evaluation period hosting and participating in various small business workshops and presentations at the local community college's small business development center. The community contact interviewed during this examination cited this center as an invaluable resource to small business owners, especially first-time business owners, of the local community. Bank staff has also participated in workshops and housing fairs hosted by Habitat for Humanity that help educate low- and moderate-income individuals on the home-buying process. Finally, a bank employee helps promote economic development and provides financial expertise by serving as a member on a local city's economic development committee.

## **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