

PUBLIC DISCLOSURE

August 16, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Citizens National Bank
Charter Number 16890**

**4800 North Navarro Street
Victoria, Texas 77903**

Supervisory Office:

**Office of the Comptroller of the Currency
Minneapolis West Field Office
920 Second Avenue South, Suite 800
Minneapolis, Minnesota 55402-3393**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision,

to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the CRA performance of **Citizens National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **August 16, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **“Satisfactory.”**

Citizens National Bank is responsive to the credit needs of its community, including low- and moderate-income individuals and areas and small businesses. This is evidenced by the following:

- ! The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and credit needs of the assessment area (AA). The bank's loan-to-deposit ratio has averaged 53.5 percent for the past thirteen quarters and compares favorably with similarly situated institutions in and around the AA.
- ! A substantial majority of the bank's loans are made within the AA which encompasses Victoria County.
- ! Loans are reasonably distributed to borrowers of different income levels and businesses of different sizes.
- ! The geographic distribution of loans reflects satisfactory dispersion throughout the AA.
- ! The bank has satisfactorily responded to consumer complaints since the prior evaluation period.

DESCRIPTION OF INSTITUTION

Citizens National Bank (Citizens) is a commercial bank with one main office located in Victoria, Texas.

There are no branch locations but the bank has two automated teller machines (ATMs) which are located on the bank's premises. As of June 30, 1999, Citizens had total assets of \$74.9 million with \$37 million, or 49 percent, of its assets in net loans.

The bank offers a wide range of deposit services, nondeposit retail investment services, and credit products. Primary loan products consist of commercial and commercial real estate loans which make up over 41 percent of the portfolio followed by residential real estate and consumer loans. Citizens received a **satisfactory** rating at the prior CRA evaluation dated May 13, 1996. As of June 30, 1999, the loan portfolio was distributed as follows:

Type of Loans	Amount \$ (000's)	Percentage
Commercial	9,277	24.8%
Commercial Real Estate	6,196	16.6%
1-4 Family Residential	11,881	31.8%
Consumer	9,019	24.1%
Agricultural	985	2.6%
Other	25	0.1%
Total	37,383	100%

There are no legal or other impediments which limit the bank's ability to help meet the community's credit needs. Citizens is wholly owned by Delaware Financial Inc., a seven bank holding company. Delaware Financial Inc. is wholly owned by Texas Financial Bancorporation, Inc. (TFB) located in Minneapolis Minnesota. As of 12/31/98, TFB had total assets of \$2.3 billion.

DESCRIPTION OF ASSESSMENT AREA

Citizens has designated the Victoria Metropolitan Statistical Area (MSA)- number 8750- as its assessment area (AA). The MSA consists of 21 census tracts, 13 of which are in the city of Victoria. Victoria is the dominant municipality in the MSA and serves as the county seat. It is located approximately 100 miles northeast of Corpus Christi, Texas and 125 miles southwest of Houston, Texas. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income census tracts (CTS).

According to the 1990 U.S. Census, the population of the AA is 74,361. Each year, the Department

of Housing and Urban Development updates the median family income. The 1998 median family income for the AA was \$44,900. There are 20,033 families in the AA. The income levels of these families are distributed as follows: 24 percent low, 16 percent moderate, 20 percent middle, and 40 percent upper income. Seventeen percent of the households in the AA are below the poverty level. The median housing value is \$52,506 with owner occupied housing representing 58 percent of the units. The AA has only one low-income census tract, which represents five percent of the total CTS in the AA. There are seven (33 percent) moderate-income, nine (43 percent) middle-income, and four (19 percent) upper-income CTS.

The local economy is diversified and thriving. In addition to education, government, and retail/wholesale trade, other significant contributors to the current economic upswing are the petrochemical, manufacturing, medical, and agricultural industries. Major employers include the Inteplast Group, Victoria Independent School District, Formosa Plastics, E.I. Dupont de Nemours, Union Carbide Corp., Alcoa, H.B. Zachry Company, and Citizens Medical Center. The unemployment rate at the end of 1998 was estimated at slightly over four percent. Competition in the financial services industry is significant. Citizens's primary competitors include four other community banks, two regional banks, two thrifts, and six credit unions.

We conducted one community contact with a local economic development coordinator and reviewed a recently performed contact with a local housing authority. Both contacts indicated the need for affordable housing. This has been increasingly significant since the flooding which took place in 1998. The contacts felt that most new construction is priced out of range for low income individuals and affordable land for development is scarce. The contacts also indicated the continuing need for small business lending as the community continues to grow.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Citizens is satisfactorily meeting the credit needs of its AA, including low- and moderate-income individuals and areas, consistent with its resources and capabilities.

Loan-to-Deposit Ratio

Citizens meets the standards for satisfactory performance with an average loan-to-deposit ratio for the last thirteen quarters of 53.5 percent. The bank's loan-to-deposit ratio has steadily increased since our prior review and was 59.8 percent as of June 30, 1999. There are eleven other banks with assets under \$100 million in Victoria and the six other surrounding counties. The average loan-to-deposit ratio for these banks as of June 30, 1999 is 49.9 percent. Citizen's loan-to-deposit ratio compares favorably with these similarly situated banks and the four other community banks in Victoria which have

ratios ranging from 42 percent to 73 percent.

Lending in the Assessment Area (AA)

Citizens meets the standards for satisfactory performance regarding lending in its AA. A majority of the bank's consumer and commercial loans are extended in the AA. Our sample of 48 consumer loans originating in 1998 indicated 75 percent, both by number and dollar volume, were in the bank's AA. Our commercial sample of 24 loans reflected that 92 percent and 73 percent were in the bank's AA by number and dollar volume, respectively.

We also reviewed the bank's 1998 Mortgage Disclosure Act-Loan Application Register (HMDA-LAR) to determine penetration of residential and home improvement loans in the AA. During 1998, the HMDA-LAR reflected 84 originations totaling \$3.1 million. The bank reported that 62 of these originations, for a total of \$2.4 million, were in the AA. This represents 74 percent by number and 77 percent of the dollar volume of HMDA reportable loans inside the bank's AA. Likewise, the bank's internal analysis of non-HMDA reportable loans indicated 81 percent and 73 percent, by number and dollar volume, respectively were in the bank's AA.

The following table reflects the bank's record of lending within the AA:

Loans Originated in the Assessment Area						
	within the AA		outside the AA		Totals	
	#	\$000	#	\$000	#	\$000
1998 HMDA-LAR	62 (74%)	2,376 (77%)	22 (26%)	721 (23%)	84 (100%)	3,097 (100%)
Consumer Sample	36 (75%)	299 (75%)	12 (25%)	101 (25%)	48 (100%)	400 (100%)
Commercial Sample	22 (92%)	1,109 (73%)	2 (8%)	400 (27%)	24 (100)	1,509 (100%)
Bank's Internal Analysis	641 (81%)	11,471 (73%)	150 (19%)	4,284 (27%)	791 (100%)	15,755 (100%)

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank meets the standards for satisfactory performance with a reasonable distribution of loans to individuals with different income levels and businesses of different sizes. Citizen's primary product lines consist of commercial and commercial real estate, 1-4 family residential, and consumer loans.

As shown in the table below, a strong penetration of our sample of commercial loans originating in 1998 were made to small businesses with revenues of less than \$1 million.

Lending to Businesses of Different Sizes										
Revenue Ranges	<\$100 thousand		\$100 - \$500 thousand		\$500 - \$1,000 thousand		> \$1,000 thousand		Total	
<i>By Number</i>	#	%	#	%	#	%	#	%	#	%
Business Loans	1	5%	10	45%	4	18%	7	32%	22	100%

Citizen's 1998 HMDA-LAR indicates the level of residential related loans reasonably coincides with the demographic distribution of low- and moderate-income households. In addition, our sample of 36 consumer loans in the AA in 1998 indicates a reasonable penetration to low- and moderate-income individuals. The following table reflects the distribution of credit to borrowers of different income levels in the AA based on the 1998 HMDA-LAR and our consumer sample.

Lending to Borrowers of Different Income Levels										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Totals	
Area Demographic Characteristics	24%		16%		20%		40%		100%	
<i>By Number</i>	#	%	#	%	#	%	#	%	#	%

Loan Type										
HMDA-LAR	4	7%	15	24%	7	11%	36	58%	62	100%
Consumer	9	25%	9	25%	7	19%	11	31%	36	100%

Geographic Distribution of Loans

The geographic distribution of loans is reasonably dispersed throughout the AA and meets the standards for satisfactory performance. We based our conclusion on the distribution of HMDA-LAR reportable loans in 1998, a consumer sample of 22 loans, and the bank's internal analysis of the geographic distribution of all loans which are geocoded based on the street address of the borrower.

Lending in Areas of Different Income Levels within the Assessment Area										
	Low Income Areas		Moderate Income Areas		Middle Income Areas		Upper Income Areas		Total	
	#	%	#	%	#	%	#	%	#	%
Census Tracts	1	5%	7	33%	9	43%	4	19%	21	100%
Population	2M	3%	21M	28%	32M	43%	19M	26%	74M	100%
Owner-occ.	1M	2%	9M	24%	12M	45%	7M	29%	29M	100%
1998 HMDA-LAR	0	0%	13	21%	22	35%	27	44%	62	100%
Consumer Sample	1	3%	7	19%	18	50%	10	28%	62	100%
Bank's Internal Analysis	4	1%	153	24%	246	38%	238	37%	641	100%

There were no HMDA reportable loans originated in the low income census tract in 1998. However, this census tract comprises less than 3 percent of the population and has only 2 percent of the owner-occupied units. Also, this census tract is in the southern most part of Victoria, approximately five miles from the bank's premises. The penetration of HMDA reportable loans in the moderate income census tracts reasonably coincides with the percentage of owner occupied units. Based on our sample and the

bank's internal analysis, the number of loans within these census tracts reasonably resembles the population distribution.

The dollar distribution of HMDA reportable loans is somewhat lower than the distribution of owner occupied units for the moderate income census tracts. Our review of 1998 HMDA loans indicates 9.2 percent by dollar volume is distributed in the seven moderate income census tracts. The middle and upper income tracts represent 24 percent and 67 percent of loan originations by dollar volume in 1998. Based on the bank's internal analysis, the dollar distribution of non HMDA reportable loans is also reasonable with 18.4 percent of the dollar volume of loans located in the seven moderate income census tracts. By dollar volume, the middle and upper income census tracts have 23 percent and 31 percent of these loan originations, respectively.

Response to Complaints

During this evaluation period, Citizens satisfactorily responded to consumer complaints. Five consumer complaints were noted since our prior review. Our research revealed these complaints did not indicate a pattern or practice, were diligently addressed by bank management, with satisfactory responses.

Our fair lending review did not identify any substantive violations of anti-discrimination laws or regulations. We detected no practices intended to discourage applicants from applying for the types of credit offered. Our sample focused on home improvement applications and consisted of a comparative analysis of 26 white applicants versus five denied minority applicants. We also compared the terms of these 26 white approvals to five minority approvals. There was no evidence of discrimination or disparate treatment.