



## PUBLIC DISCLOSURE

May 7, 2018

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Citizens National Bank  
Charter Number 5484

118 South Houston Street  
Cameron, TX 76520

Office of the Comptroller of the Currency

San Antonio Field Office  
10001 Reunion Place, Suite 250  
San Antonio, TX 78216-4133

**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, and should not 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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## Overall CRA Rating

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Outstanding.**

Citizens National Bank (CNB) has a satisfactory record of meeting community credit needs. The rating is based on the following findings:

- CNB's quarterly average loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and credit needs in the assessment areas (AAs).
- CNB originated a majority of loans, especially commercial loans, the primary lending product, inside its AAs.
- The distribution of loans reflects reasonable penetration to borrowers of different income levels and to businesses of different sizes.
- The distribution of loans reflects reasonable dispersion.
- Community development (CD) performance demonstrates excellent responsiveness to CD needs in the AAs.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental 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 Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

**Community Reinvestment Act (CRA):** the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn, loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing).

**Home Mortgage Loans:** Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of

individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Metropolitan Area (MA):** Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area (MSA):** An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier One Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

## Description of Institution

Chartered in 1900, CNB is owned 100 percent by Central Texas Financial Corp. (CTFC), which also owns an affiliated finance company, People's Finance Co., with locations in Caldwell, Cameron, and Giddings. CTFC is controlled primarily by one family. We did not review affiliate activities during this evaluation.

CNB's main office, headquartered in Cameron, Texas, is located 75 miles northeast of Austin, Texas. In addition to the main office, CNB has eight full-service branches: 1 each in Coupland, Giddings, Pflugerville, Round Rock, Taylor, and Cedar Park; and 2 in Rockdale. CNB has a total of five limited service (drive-in) facilities in Cameron, Rockdale, Round Rock, Taylor, and Giddings.

The Cedar Park branch, which was acquired in September 2015, is new since the previous CRA evaluation in May 2015. Automated teller machine (ATM) services are available in each city except Coupland; however, it is located only eight miles from the Taylor ATM. CNB offers a full range of loan and deposit products and services, and provides an online deposit account opening process through its website (<https://www.cnbanktexas.com/>). Customers can access their accounts through telephone or Internet banking services. CNB also offers trust services and had total trust assets of \$96 million at year-end 2017.

The bank's primary focus is to promote economic development in its AAs through lending programs. CNB has developed a market niche in commercial real estate and small business lending. The bank still offers residential, consumer and agricultural loans although these products have not seen growth like commercial loans. At December 31, 2017, net loans totaled \$220.6 million and represented 62 percent of total deposits and 55 percent of total assets. As of December 31, 2017, the loan portfolio was comprised primarily of commercial loans. The following table reflects the loan portfolio composition by loan type.

Loan Portfolio Composition as of December 31, 2017		
Loan Type	Volume (\$000)	% of Total Loans
Commercial Loans	166,924	74%
Residential Real Estate Loans	24,186	11%
Agricultural Loans	25,666	11%
Consumer Installment Loans	2,615	1%
Other loans	5,891	3%
Total Loans:	225,282	100%

Source: December 31, 2017 Call Report

CNB faces strong competition from other local, regional, and national financial institutions in its three AAs. Primary competitors include JP Morgan Chase, Wells Fargo Bank, Bank of America, Compass Bank, and First Texas Bank. According to the FDIC's June 30, 2017 Deposit Market Share Reports, CNB with \$324 million in deposits ranks 6<sup>th</sup> of 35 institutions in the combined AA's with 4 percent of the deposit market share. The majority of the CNB deposits, 89 percent, are from within the AAs.

Based on its financial condition, the local economy, product offerings, and competition, CNB has the ability to meet the various credit needs in its community. No legal impediments or other factors hinder its ability to provide credit in its AAs. The previous CRA examination, dated May 4, 2015, rated CNB “Satisfactory” under the intermediate small bank criteria.

## Scope of the Evaluation

### Evaluation Period/Products Evaluated

This Performance Evaluation assesses the bank’s performance using intermediate small bank (ISB) examination procedures, which include lending and CD tests. The lending test evaluates the bank’s record of meeting credit needs of its AAs through its primary lending activities. The CD test evaluates the bank’s responsiveness to identified needs in its AAs through its CD lending, qualified investments, and CD services.

The evaluation period for this CRA examination is from May 4, 2015, the date of the last examination, through May 7, 2018, the date of the current examination. The lending test focused on HMDA-reportable loans originated between January 1, 2016 and December 31, 2017; and commercial loans originated between May 4, 2015 and May 7, 2018. The CD test focused on CD activities between May 4, 2015 and May 7, 2018.

The table below shows the breakdown of all loans CNB originated during the evaluation period. As shown, the primary product, by dollar volume, is commercial loans with 66 percent. Commercial loans also represent 28 percent of the number of loans originated during the evaluation period. While the number of consumer loans and agricultural loans originated are significant at 30 percent and 29 percent respectively, the dollar volume for each is relatively low, and neither is considered a primary product. We selected a sample of 20 commercial loans from each AA receiving a full-scope review for a total of 40 commercial loans. The sample of residential real estate loans included the entire population of HMDA-reportable loans. Residential loans include home purchase, home improvement, and refinanced loans; however, only 44 residential loans originated inside the AAs during 2016 and 2017. We used these 44 loans (39 home purchase, two home improvement, and three refinanced) to analyze borrower and geographic distributions in each AA. The low volume of loans means that each type might not be included in a table for a particular year or AA.

Loan Originations and Purchases During the Evaluation Period By Loan Type		
Loan Type	% by Dollar of Loans	% by Number of Loans
Commercial Loans	66%	28%
Residential Real Estate Loans	19%	12%
Agricultural Loans	12%	29%
Consumer Installment Loans	1%	30%
Other Loans	2%	1%
Total Loans:	100%	100%

Source: Internal bank reports.

## **Data Integrity**

We reviewed a total sample of 120 HMDA loans reported in 2016 and 2017 to verify accuracy of reported loan data. We found HMDA-reported data reliable for use in the current examination. As previously noted, we selected a total sample of 40 commercial loans and verified file information to source documents. We found information reliable for use in the current examination. We reviewed CD loans, investments, and CD services information that management provided and verified each met the regulatory definition. We excluded any that did not meet the definition of CD.

## **Selection of Areas for Full-Scope Review**

For analytical purposes we combined Williamson and Travis Counties as both are in the Austin-Round Rock MSA. We also combined Milam and Lee Counties as they are adjacent, rural non-MSA counties. The third AA includes Falls County, which is in the Waco MSA. The AAs meet regulatory requirements, as each consists of whole geographies, and does not reflect illegal discrimination or arbitrarily exclude any low- or moderate-income geographies. We conducted a full-scope review for the Williamson and Travis Counties AA and for the Milam and Lee Counties AA, as these AAs contributed significantly to bank operations. We conducted a limited-scope review of the Falls County AA as lending and deposit volumes are very low for the rural county and do not contribute significantly to bank operations. Refer to **Appendix A: Scope of Examination** for additional detail.

## **Ratings**

The bank's overall rating is based on the full-scope reviews of the Williamson and Travis Counties AA and the Milam and Lee Counties AA, and the limited scope review of the Falls County AA. Commercial loan activity was given more weight as CNB primarily originated commercial loans during the evaluation period.

## **Discriminatory or Other Illegal Credit Practices Review**

Pursuant to 12 CFR 25.28(c) or 195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

# Conclusions with Respect to Performance Tests

## LENDING TEST

CNB’s performance under the lending test is satisfactory. CNB has demonstrated satisfactory performance based on its reasonable average quarterly LTD ratio, the majority of loans originated inside the AAs, reasonable lending penetration to borrowers of various income levels and to businesses of different sizes, and reasonable lending dispersion to low- and moderate-income geographies.

### Loan-to-Deposit Ratio

The quarterly average LTD ratio is reasonable given the bank’s capacity to lend, market competition, local demographic and economic factors, and lending opportunities available in the AAs. The bank’s average quarterly LTD ratio for the 12 quarters in the evaluation period was 48 percent and ranged from a low of 40 percent at March 31, 2016 to a high of 62 percent at December 31, 2017.

To assess CNB’s performance, we compared its average quarterly LTD ratio to four similarly situated community banks. The peer group average quarterly LTD was 58 percent ranging from a low of 37 percent to a high of 74 percent. CNB’s ratio was less than the peer group’s ratio. As noted above, CNB’s LTD ratio had improved to 62 percent at December 31, 2017. Please note banks in the following table are listed by LTD ratio, but no ranking is intended or implied. In addition, LTD ratios are calculated on a bank-wide basis.

<b>Loan-to-Deposit Ratio As of December 31, 2017</b>		
<b>Institution</b>	<b>Total Assets (\$000s)</b>	<b>Average Quarterly LTD Ratio</b>
Classic Bank, National Association	350,369	74%
The City National Bank of Taylor	196,021	65%
First National Bank of Giddings	198,198	56%
<b>Citizens National Bank</b>	<b>402,486</b>	<b>48%</b>
First Texas Bank	630,765	37%

*Source: Institution Reports of Condition from January 2014 to December 2017*

## Lending in Assessment Area

CNB originated a majority of loans by number inside its AAs. The bank originated 65 percent by number and 71 percent by dollar volume of its commercial loans, the primary lending product, inside the AAs. As the following table shows, 51 percent by number and 21 percent by dollar volume of the loans sampled originated inside the AAs. The low percentage of loans by dollar volume inside the AAs is skewed by several multifamily loans ranging from \$500 thousand to \$9.4 million that totaled \$21 million. Although not within the AA, 36 percent of these multifamily loans originated in moderate-income census tracts.

Lending in the Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$ 000's	%	\$ 000's	%	
Residential	44	48%	48	52%	92	5,199	15%	29,858	85%	35,057
Commercial	13	65%	7	35%	20	3,000	71%	1,215	29%	4,215
Totals:	57	<b>51%</b>	55	49%	112	8,199	<b>21%</b>	31,073	79%	39,272

Source: Loan Sample; HMDA Data

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

The distribution of loans to borrowers of different income levels and to businesses of different sizes reflects reasonable penetration. Commercial lending for the Williamson and Travis Counties AA and the Milam and Lee Counties AA reflects reasonable and excellent penetration rates, respectively. Residential lending in both AAs reflected poor penetration, especially to low- and moderate-income borrowers. In addition to the bank's performance context as a commercial-focused lender, other mitigating factors included the high median home values (above \$180,000 as per www.Zillow.com) in the AAs and a significant percentage of residential loans are purchases for investment purposes and income information is not obtained.

### Performance in the Williamson and Travis Counties AA

#### *Residential Real Estate Loans – 2016*

The distribution of home purchase loans to low- or moderate-income borrowers is significantly lower than comparative demographics reflecting poor penetration. The median home value in Williamson County is \$262,896, while the median home value in Travis County is \$325,879, per Zillow.com. Williamson County home values have increased 2.3 percent over the past year and Zillow predicts they will rise another 3.3 percent within the next year. Travis County home values have increased 4.7 percent over the past year and Zillow predicts they will rise another 3.4 percent within the next year. The median list price per square foot in Williamson County is \$137, while it is \$184 in Travis County. The median price of homes currently listed in Williamson County is \$305,000. The median price of homes currently listed in Travis County is \$375,000. The high housing cost and price growth may explain the bank's lack of low- or moderate-

income borrowers in this AA. The following table shows the distribution of home loans among borrowers of different income levels compared to the percent of families in each income category.

<b>2016 Borrower Distribution of Residential Real Estate Loans in the Williamson and Travis Counties 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
Purchase	14	0	17	0	24	0.00	45	17

Sources: 2010 US Census; data reported under HMDA; Income on 10 loans (83%) reported as NA.

### Residential Real Estate Loans – 2017

The distribution of home purchase loans to low- or moderate-income borrowers is significantly lower than comparative demographics reflecting poor penetration.

<b>2017 Borrower Distribution of Residential Real Estate Loans in the Williamson and Travis Counties 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
Purchase	16	0	17	0	23	17	44	25

Source: 2015 ACS US Census; data reported under HMDA. Income on 7 loans (58%) reported as NA.

### Commercial Loans – 2015-2016

The distribution of 2015 and 2016 sampled business loans reflects reasonable penetration to small businesses, defined as businesses with gross annual revenues of \$1 million dollars or less. CNB's pattern of lending to small businesses is near to the percentage of businesses in the AA. The following table shows the distribution of commercial loans among different sized businesses in the Williamson and Travis Counties AA.

<b>2015-2016 Borrower Distribution of Loans to Businesses in the Williamson and Travis Counties Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	88%	4%	8%	100%
% of Bank Loans in AA by #	80%	20%	0%	100%
% of Bank Loans in AA by \$	89%	11%	0%	100%

Source: Dun and Bradstreet data; 2010 US Census

*Commercial Loans – 2017-2018*

The distribution of 2017 and 2018 sampled business loans reflects reasonable penetration to small businesses, defined as businesses with gross annual revenues of \$1 million dollars or less. CNB’s pattern of lending to small businesses is somewhat lower than the percentage of businesses in the AA. The following table shows the distribution of commercial loans among different sized businesses in the Williamson and Travis Counties AA.

<b>2017-2018 Borrower Distribution of Loans to Businesses in the Williamson and Travis Counties Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	88%	4%	8%	100%
% of Bank Loans in AA by #	70%	30%	0%	100%
% of Bank Loans in AA by \$	82%	18%	0%	100%

*Source: Dun and Bradstreet data; 2015 ACS US Census*

Performance in the Milam and Lee Counties AA

*Residential Real Estate Loans – 2016*

The distribution of home purchase loans to low- or moderate-income borrowers is significantly lower than comparative demographics reflecting very poor penetration. The median home value in Milam County is \$185,000 while the median home value in Lee County is \$287,500 per Zillow.com. The high housing cost may explain the bank’s lack of low- or moderate-income borrowers in this AA. The following table shows the distribution of home loans among borrowers of different income levels compared to the percent of families in each income category.

<b>2016 Borrower Distribution of Residential Real Estate Loans in the Milam and Lee Counties Assessment Area</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans						
Purchase	18	0	17	0	17	0	48	75

*Sources: 2010 US Census; data reported under HMDA*

*Residential Real Estate Loans – 2017*

The distribution of residential loans to low- or moderate-income borrowers is significantly lower than comparative demographics reflecting very poor penetration. The following table shows the distribution of loans among borrowers of different income levels compared to the percent of families in each income category.

<b>2017 Borrower Distribution of Residential Real Estate Loans in the Milam and Lee Counties 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
Purchase	18	0	17	0	19	36	46	36
Improvement	18	0	17	0	19	0	46	50
Refinance	18	0	17	0	19	0	46	100.00

Source: 2015 ACS US Census; data reported under HMDA. Income reported as NA for 28% of Home Purchase and 50% of Home Improvement loans.

### Commercial Loans – 2015-2016

The distribution of 2015 and 2016 sampled business loans reflects excellent penetration to small businesses, defined as businesses with gross annual revenues of \$1 million dollars or less. CNB's pattern of lending to small businesses exceeds the percentage of businesses in the AA. The following table shows the distribution of commercial loans among different sized businesses in the Milam and Lee Counties AA.

<b>2015-2016 Borrower Distribution of Loans to Businesses in the Milam and Lee Counties Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	82	5	13	100%
% of Bank Loans in AA by #	100	0	0	100%
% of Bank Loans in AA by \$	100	0	0	100%

Source: Dun and Bradstreet data; 2010 US Census

### Commercial Loans – 2017-2018

The distribution of 2017 and 2018 sampled business loans reflects excellent penetration to small businesses, defined as businesses with gross annual revenues of \$1 million dollars or less. CNB's pattern of lending to small businesses exceeds the percentage of businesses in the AA. The following table shows the distribution of commercial loans among different sized businesses in the Milam and Lee Counties AA.

<b>2017-2018 Borrower Distribution of Loans to Businesses in the Milam and Lee Counties Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	82	5	12.56	100%
% of Bank Loans in AA by #	85	15	0	100%
% of Bank Loans in AA by \$	86	14	0	100%

Source: Dun and Bradstreet data; 2015 ACS US Census

## Geographic Distribution of Loans

CNB's geographic distribution of loans reflects reasonable dispersion given the bank's size, primary loan product, and demographic data.

### Performance in the Williamson and Travis Counties AA

The geographic distribution of loans in the Williamson and Travis Counties AA reflects excellent dispersion.

#### *Residential Real Estate Loans – 2016*

The geographic distribution of 2016 residential real estate loans reflects excellent dispersion. Demographic data shows that 10 percent of owner occupied housing is in the 15 moderate-income tracts in the AA. CNB's lending in the moderate-income CTs significantly exceeds demographics for purchase and refinances. This AA did not include any low-income CTs in 2016. The following table reflects the distribution of residential loans in the AA.

2016 Geographic Distribution of Residential Real Estate Loans in Williamson and Travis Counties								
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
Purchase	0	0	10	33	53	42	37	25
Refinance	0	0	10	100	53	0	37	0

Sources: Data reported under HMDA; U.S. 2010 Census data.

#### *Residential Real Estate Loans – 2017*

The geographic distribution of 2017 residential real estate loans reflects excellent dispersion. Demographic data shows that less than 1 percent of owner occupied housing are in the two low income tracts, while 7 percent are in fourteen moderate-income tracts in the AA. CNB's lending in the low- and moderate-income CTs significantly exceeds demographic data. The following table reflects the distribution of residential loans in the AA.

<b>2017 Geographic Distribution of Residential Real Estate Loans in Williamson and Travis Counties</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
Purchase	1	8	7	42	54	42	38	8

Sources: Data reported under HMDA; 2015 ACS U.S. Census data.

### Commercial Loans – 2015-2016

The geographic distribution of 2015-2016 business loans reflects excellent dispersion. As reflected in the following table, the percentage of loans to businesses in moderate-income CTs exceeds the percentage of businesses located in these CTs. There were no low-income CTs in this AA during 2015 or 2016.

<b>2016 Geographic Distribution of Loans to Businesses in the Williamson and Travis Counties 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
	0	0	15	40	49	30	36	30

Source: Loan sample, D & B Data; 2010 US Census.

### Commercial Loans – 2017-2018

The geographic distribution of 2017-2018 business loans reflects excellent dispersion. As shown in the following table, the percentage of loans to businesses in low-income CTs exceeds the percentage of businesses located in these CTs. Loans to businesses in moderate-income tracts is near to the percentage of businesses located in these CTs.

<b>2017 Geographic Distribution of Loans to Businesses in the Williamson and Travis Counties 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
	2	10	12	10	50	70	36	10

Source: Loan sample, D & B Data; 2015 ACS US Census.

## Performance in the Milam and Lee Counties AA

The geographic distribution of loans in the Milam and Lee Counties AA reflects reasonable dispersion when considering the low number of low- or moderate-income CTs and the bank's primary lending products. More weight was given to commercial loan dispersion in determining reasonable performance.

### *Residential Real Estate Loans – 2016*

The geographic distribution of 2016 residential real estate loans reflects very poor dispersion. Demographic data shows that 7 percent of owner occupied housing is in one moderate-income tract in the AA. CNB did not originate any loans in this tract. The following table reflects the distribution of residential loans in the AA.

<b>2016 Geographic Distribution of Residential Real Estate Loans in Milam and Lee Counties</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
Purchase	0	0	7	0	45	75	48	25

Sources: Data reported under HMDA; U.S. 2010 Census data.

### *Residential Real Estate Loans – 2017*

The geographic distribution of 2017 residential real estate loans reflects very poor dispersion. Demographic data shows that 7 percent of owner occupied housing is in one moderate-income tract in the AA. CNB did not originate any loans in this tract. The following table reflects the distribution of residential loans in the AA.

<b>2017 Geographic Distribution of Residential Real Estate Loans in Milam and Lee Counties</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
Purchase	0	0	7	0	55	82	38	18
Improvement	0	0	7	0	55	0	38	100

Sources: Data reported under HMDA; 2015 ACS U.S. Census data.

### *Commercial Loans – 2015-2016*

The geographic distribution of 2015-2016 business loans reflects excellent dispersion. As shown in the following table, the percentage of loans to businesses in moderate-income CTs exceeds the percentage of businesses located in these CTs. There are no low-income CTs in the Milam and Lee Counties AA.

2015-2016 Geographic Distribution of Loans to Businesses in the Milam and Lee Counties Assessment Area								
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
	0	0	12	29	53	29	34	43

Source: Loan sample, D & B Data; 2010 US Census.

### Commercial Loans – 2017-2018

The geographic distribution of 2017-2018 business loans reflects reasonable dispersion. As shown in the following table, the percentage of loans to businesses in moderate income CTs is somewhat lower than the percentage of businesses located in these CTs.

2017-2018 Geographic Distribution of Loans to Businesses in the Milam and Lee Counties Assessment Area								
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
	0	0	11	8	60	77	29	15

Source: Loan sample, D & B Data; 2015 ACS US Census.

### Responses to Complaints

CNB did not receive any complaints related to its CRA performance during the evaluation period. This has a neutral impact on the bank's overall performance.

### COMMUNITY DEVELOPMENT TEST

CNB's performance demonstrates excellent responsiveness to CD needs in its AAs.

#### Number and Amount of Community Development Loans

CNB originated 18 qualifying CD loans totaling \$6.4 million inside the AAs during the evaluation period; \$1.35 million in the Williamson and Travis Counties AA and \$5.05 million in the Milam and Lee Counties AA. A majority of the loans supported economic development as the loans provided financing to small businesses.

In addition to the excellent responsiveness within its AAs, CNB also purchased a \$5.2 million participation in a loan secured by 42 nursing homes located in Texas where 62 percent of the nursing homes had more than 50 percent of patients on Medicaid.

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

CNB made eligible donations totaling \$19 thousand that promoted economic development, provided community services, and made affordable housing available for low- and moderate-income (LMI) individuals. Donations totaled \$13.8 thousand in the Williamson and Travis Counties AA, and \$5.2 thousand in the Milam and Lee Counties AA. CNB also invested in two bonds totaling \$705 thousand that support a Title 1 school district in the Milam and Lee Counties AA.

In addition to the excellent responsiveness within its AAs, CNB also invested in 27 bonds totaling \$8.9 million that support other Title 1 school districts in Texas.

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

CNB officers and employees provided financial expertise to expand affordable housing, promote economic development, and community services targeted to LMI individuals in its AAs.

Bank officers and employees provide financial technical assistance through leadership roles as Board members, officers, or volunteers in organizations whose primary purpose is community development.

CNB provided ongoing financial literacy education to local schools with high percentages of students from economically disadvantaged families. Bank records reflect positive response from educators and students. Schools provided with financial literacy education in the Williamson and Travis Counties AA include Pflugerville Elementary, Thrall Elementary, Brookhollow Elementary, Taylor High and Middle schools, and Anderson Mill Elementary. Schools in the Milam and Lee Counties AA include Giddings Elementary and Rockdale Elementary and High schools.

In the Williamson and Travis Counties AA, CNB staff volunteer with The Taylor Unit of the Salvation Army, Lions Club, Kiwanis Clubs, and others. CNB staff also volunteer time to organizations focused on economic development, such as the Cameron Tourism Advisory Board, Rockdale ISD Career and Technical Education Advisory Committee in Milam and Lee Counties AA.

As noted previously, CNB has one main office and eight branches. The main office is located in a moderate-income geography in the Milam and Lee Counties AA. Forty percent of the branches in the Williamson and Travis Counties AA are located in moderate-income geographies.

## **Responsiveness to Community Development Needs**

CNB has demonstrated excellent responsiveness to CD needs in its AAs through CD loans, investments, and services.

## Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test (excludes CD loans): 05/04/2015 to 05/07/2018 CD Loans, Investments, Services: 05/04/2015 to 05/07/2018	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
Citizens National Bank, Cameron, TX	Residential and Commercial Loans	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
None	None	N/A
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Williamson and Travis Counties AA	Full Scope	Part of the Austin-Round Rock MSA (12420), All of Williamson County and select tracts of Travis County near Pflugerville, Texas (18.41,18.54,18.55,18.58,18.59)
Milam and Lee Counties AA	Full Scope	Non-MSA, All of Milam and Lee Counties.
Falls County AA	Limited Scope	Single census tract of Rosebud, Texas.

# Appendix B: Community Profiles for Full-Scope Areas

## Williamson and Travis Counties Assessment Area

Demographic Information for Full-Scope Area: Williamson and Travis Counties Assessment Area (Austin/Round Rock MSA)					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	94	2%	15%	51%	32%
Population by Geography	532,162	1%	12%	53%	34%
Owner-Occupied Housing by Geography	126,816	1%	7%	54%	38%
Businesses by Geography	35,692	2%	12%	50%	36%
Farms by Geography	1,008	1%	13%	57%	28%
Family Distribution by Income Level	132,464	1%	10%	54%	36%
Distribution of Low- and Moderate-Income Families throughout AA Geographies	44,115	2%	18%	61%	19%
Median Family Income (MFI)	= \$87,227		Median Housing Value	= \$196,028	
FFIEC Adjusted MFI for 2017	= \$81,400		Unemployment Rate	= 4%	
Households Below the Poverty Level	= 12,345 or 7%				

Source: 2015 ACS U.S. Census, and 2017 FFIEC updated MFI.

CNB operates in Williamson and Travis Counties, two of the five counties that make up the Austin-Round Rock MSA. CNB’s AA includes all of Williamson County with branches in Coupland, Round Rock, Cedar Park, and Taylor; and five census tracts in Eastern Travis County near the bank’s branch in Pflugerville. The AA meets the requirement of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The Austin-Round Rock MSA has a diverse economy including government, education, and high-tech firms such as semiconductors and software. Most of the largest employers including Advanced Micro Devices, Apple Inc., IBM, Freescale Semiconductor, Texas and United States government, and the University of Texas at Austin are in the city of Austin, the Texas capital. Other major employers in the MSA include Dell Inc. in Round Rock, MD/Totco in Cedar Park, and Southwestern University in Georgetown.

As part of this evaluation, we assessed community credit needs in the bank’s AA by reviewing CRA Public Evaluations of other banks operating in the same area, and reviewing three community contacts with local governmental and non-profit organizations focused on small business and economic development in the Austin-Round Rock MSA. Our review determined the most pressing credit needs in the AA are affordable housing and small business lending. Other identified needs included financial literacy, ongoing training for small businesses, and education for homebuyers.

## **WILLIAMSON COUNTY DESCRIPTION**

Williamson County is located on the Edwards Plateau and bisected by major interstate highway 35 in the U.S. state of Texas. Williamson County covers 1,134 square miles and has a 2017 estimate population of 548 thousand according to the U.S. Census Bureau. The city of Georgetown serves as the county seat. The June 30, 2017 FDIC Market Share Report reflects 31 institutions in the county with total deposits of \$7.2 million. CNB is ranked 16<sup>th</sup> with 1.6 percent deposit market share. Thirty-one percent of CNB's total deposits originate here.

Based on 2016 ACS estimates, the median household income was \$75,935, and the median family income was \$88,161. The per capita income was \$31,096. About 5 percent of families and 7 percent of the population live below the poverty level. Census estimates for 2016 show the county has total population of 485 thousand individuals, 165 thousand households, and 119 thousand families.

As of March 2018, the U.S. Bureau of Labor Statistics reports an unemployment rate of 3.2 percent for Williamson County. The rate compares favorably to the national and state unemployment rates of 4.1 percent and 4 percent, respectively.

## **TRAVIS COUNTY DESCRIPTION**

Travis County, located on the Balcones Fault in the U.S. state of Texas, covers 1,023 square miles and has a 2017 estimate population of 1.2 million according to the U.S. Census Bureau. The city of Austin serves as the county seat and is the state capital. The June 30, 2017 FDIC Market Share Report reflects 47 institutions in the county with total deposits of \$32 million. CNB is ranked 35<sup>th</sup> with only 0.13 percent deposit market share. Eleven percent of CNB's total deposits originate here.

Based on 2016 ACS estimates, the median household income was \$64,422, and the median family income was \$81,822. The per capita income was \$36,649. Ten percent of families and 15 percent of the population live below the poverty level. Census estimates for 2016 show the county has total population of 1.12 million individuals, 438 thousand households, and 248 thousand families.

As of March 2018, the U.S. Bureau of Labor Statistics reports an unemployment rate of 3 percent for Travis County. The rate compares favorably to the national and state unemployment rates of 4.1 percent and 4 percent, respectively.

## Milam and Lee Counties Assessment Area

Demographic Information for Full-Scope Area: Milam and Lee Counties Assessment Area					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	11	0%	9%	55%	36%
Population by Geography	41,088	0%	8%	59%	33%
Owner-Occupied Housing by Geography	10,620	0%	7%	55%	38%
Businesses by Geography	2,453	0%	11%	60%	29%
Farms by Geography	211	0%	6%	60%	34%
Family Distribution by Income Level	10,303	0%	7%	58%	35%
Distribution of Low- and Moderate-Income Families throughout AA Geographies	3,609	0%	11%	62%	27%
Median Family Income (MFI)	= \$58,071	Median Housing Value		= \$95,081	
FFIEC Adjusted MFI for 2017	= \$54,200	Unemployment Rate		= 4%	
Households Below the Poverty Level	= 2,528 or 17%				

Source: 2015 ACS U.S. Census, and 2017 FFIEC updated MFI.

This AA includes Milam County and Lee County, two rural adjacent non-MSA counties which were combined as one AA for analytical purposes. The AA meets the requirements of the regulation and does not arbitrarily exclude LMI geographies. CNB has three full-service offices in Milam County, one in Cameron, the county seat, and two in Rockdale. The full-service office in Lee County is located in Giddings, the county seat.

Business conditions in the AA are good. The main industries are services, healthcare and retail trade. Major employers include Lee and Milam County, the Cities of Giddings and Cameron, Giddings and Cameron ISDs, Standards Home Health, the Texas Juvenile Justice Department State School of Giddings, Butler Weldments, Charlotte Pipe, Pumpco Oilfield Services, and Blue Bonnet Electric Cooperative. The OCC contacted a local community organization to gain perspective on credit needs in the AA. The contact stated that local institutions are doing a good job meeting the needs of the community and that there were opportunities to provide further aid in community development via small business loans.

### MILAM COUNTY DESCRIPTION

Milam County covers 1,022 square miles and has a 2017 estimate population of 25 thousand according to the U.S. Census Bureau. The June 30, 2017 FDIC Market Share Report reflects only four institutions in the county with nine branches with total deposits of \$357 thousand. CNB ranks first with 47 percent deposit market share and 46 percent of CNB's total deposits originate here.

Based on 2016 ACS estimates, the median household income was \$39,213, and the median family income was \$56,605. About 12 percent of families and 16 percent of the population live below the poverty level. Census estimates for 2016 show the county has total population of 24 thousand individuals, nine thousand households, and six thousand families.

As of March 2018, the U.S. Bureau of Labor Statistics reports an unemployment rate of 5 percent for Milam County. The rate is higher than the national and state unemployment rates of 4.1 percent and 4 percent, respectively.

## **LEE COUNTY DESCRIPTION**

Lee County covers 634 square miles and has a 2017 estimate population of 17 thousand according to the U.S. Census Bureau. The June 30, 2017 FDIC Market Share Report reflects only five institutions in the county with nine branches with total deposits of \$471 thousand. CNB ranked fifth with 9 percent deposit market share and 12 percent of CNB's total deposits originate here.

Based on 2016 ACS estimates, the median household income was \$54,346, and the median family income was \$66,419. The per capita income is \$25,549. About 11 percent of families and 15 percent of the population live below the poverty level. Census estimates for 2016 show the county has total population of 17 thousand individuals, six thousand households, and four thousand families.

As of March 2018, the U.S. Bureau of Labor Statistics reports an unemployment rate of 3.3 percent for Lee County. The rate compares favorably to the national and state unemployment rates of 4.1 percent and 4 percent, respectively.