



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 23, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Citizens National Bank of Hillsboro
Charter Number: 4900

200 E. Elm Street
Hillsboro, TX 76445

Office of the Comptroller of the Currency
Dallas Field Office
17300 Dallas Parkway, Suite 2020
Dallas, TX 75248-1145

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.

Citizens National Bank's (CNB) lending performance reflects a satisfactory response to credit needs in its community. Factors that support the overall rating include:

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A substantial majority of loans are within the bank's AA.
- The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.

SCOPE OF EXAMINATION

CNB was evaluated under the Small Bank examination procedures which include a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through lending activities.

The scope of the Community Reinvestment Act (CRA) examination covered the time period from April 23, 2003, the date of the prior Performance Evaluation (PE), to March 23, 2009, the date of the current evaluation. We identified commercial and residential loans as CNB's primary loan products. To evaluate the commercial and residential lending performance, we selected a sample of 20 commercial and 20 residential loans made from April 23, 2003, through March 23, 2009.

In evaluating the loan-to-deposit ratio, we used a comparison of two similarly situated banks over the prior 23 quarters. These banks were selected for analysis based on their proximity and similar size to CNB.

DESCRIPTION OF INSTITUTION

CNB is headquartered in Hillsboro, Texas. As of December 31, 2008, total assets were \$132 million. CNB is wholly owned by Hillsboro Bancshares. In addition to the main office, CNB operates one other branch in Hillsboro. The bank owns two automatic teller machines located at each office in Hillsboro. The branch was opened subsequent to the last CRA examination. The bank neither opened nor closed any other branches during the evaluation period. CNB offers a full range of deposit and loan products and services with a focus on commercial, residential, and consumer lending.

As of December 31, 2008, net loans represented 16 percent of the bank’s total assets. A summary of the loan portfolio is as follows:

Loan Portfolio Summary by Loan Product December 31, 2008		
Loan Category	Dollar Volume \$(000)	% of Dollars
Commercial	13,777	54.3%
Consumer	5,345	21.1%
Residential	4,635	18.3%
Agriculture	1,522	6.0%
Other	92	0.3%
Total	25,371	100%

Source: December 31, 2008, Consolidated Report of Condition

CNB received a satisfactory rating at the prior CRA examination. There are no legal or financial factors impeding the bank’s ability to help meet the credit needs of the AA.

DESCRIPTION OF ASSESSMENT AREA

CNB’s AA includes all of Hill County. The AA includes 12 census tracts with 0 tracts designated low-income, 2 tracts designated moderate-income, 9 tracts designated middle-income, and 1 tract designated upper-income. The AA meets the requirements of the regulation and does not arbitrarily exclude any low or moderate income geographies.

Hillsboro is the county seat of Hill County and is located approximately 60 miles south of the DFW metro area. According to the U.S. Census Bureau, as of 2007, Hill County had an estimated population of 35,352. Economic conditions are characterized as relatively stable. The economy of the AA depends heavily on the Hillsboro outlet mall, which attracts out-of-town people to local hotels and restaurants. Due to recent economic conditions, some stores in the outlet mall have closed. Competition from other financial institutions includes a few locally headquartered banks as well as branches of larger national financial institutions.

The following table contains a summary of economic and demographic data for the AA.

Demographic Information for Hill County AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	12	0%	17%	75%	8%
Population by Geography	32,321	0%	14%	76%	10%
Owner Occupied Housing Units by Geography	9,148	0%	8%	82%	10%
Businesses by Geography	2,740	0%	15%	73%	12%
Farms by Geography	492	0%	1%	82%	17%
Family Distribution by Income Level	8,823	19%	17%	22%	41%
Household Distribution by Income Level	12,234	24%	14%	19%	43%
Census Median Family Income (MFI)					
		\$37,791	Median Housing Value	\$82,400	

HUD – Adjusted MFI: 2008	\$43,600	Households Below the Poverty Level	12%
HUD – Adjusted MFI: 2007	\$41,800	Unemployment Rate	6%
HUD – Adjusted MFI: 2006	\$43,100		

Source: 2008 Business Geodemographic Data; 2000 U.S. Census Data

We held a discussion with a community contact from the Hillsboro City Manager’s office.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

CNB has demonstrated satisfactory performance in meeting the credit needs of its AA. We focused our review on the primary lending products originated since the previous CRA examination: commercial and residential loans. The sample of commercial and residential loans was used to determine the extent of lending within the AA, the distribution of loans by borrower income level, and the geographic distribution of loans in the AA.

Loan-to-Deposit Ratio

CNB’s loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, and AA credit needs. The bank had a quarterly average LTD ratio of 31 percent over the 23 quarters since the last CRA examination. This ratio reasonably compares with other financial institutions of similar size, location and product offerings. CNB ranks second among the three similar area banks used for comparison. The average LTD ratio for the other two banks, First National Bank of Whitney and Citizens State Bank, over the same period of time was 34 percent.

Lending in Assessment Area

A substantial majority of loans are in CNB’s AA. In our sample of 20 commercial and 20 residential loans, 93 percent of the number and 89 percent of the dollar volume of loans were made within the AA. The following table reflects the distribution of loans, by number and dollar volume, which originated inside and outside the AA.

Lending in Hill County AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	19	95	1	5	20	1,194,734	78.6	224,000	14.4	1,519,734
Commercial	18	90	2	10	20	976,004	95	49,645	5	1,025,649
Total	37	92.5	3	7.5	40	2,170,738	88.8	273,645	11.2	2,444,383

Source: Loan Sample

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

Given the demographics of the AA, the distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. More weight was given to commercial loans as this is the bank’s primary loan product.

Commercial loans:

Our sample of commercial loans made within the AA indicates reasonable penetration among businesses of different sizes.

Of the 20 commercial loans in our sample, 80 percent of the number and 43 percent of the dollar volume were made to businesses with revenues of less than \$1 million. The following table shows the distribution of loans to businesses of different sizes.

Borrower Distribution of Loans to Businesses in Hill County AA		
<i>Business Revenues (or Sales)</i>	<i>≤\$1,000,000</i>	<i>>\$1,000,000</i>
% of Bank Loans in AA by #	80	20
% of Bank Loans in AA by \$	43	57

Source: Loan Sample

Residential loans:

The distribution of residential loans to borrowers reflects reasonable penetration among borrowers of different income levels.

According to our sample of 20 residential loans, CNB made 15 percent of residential loans to low income borrowers during the evaluation period. The demographic data indicates 19 percent of families in the AA are low income. Households below the poverty level represent 22 percent of the total households in the AA. The level of income for low income families, based on the 2008 HUD adjusted family income, is \$21,800 or less. This low level could inhibit potential borrowers from qualifying for residential loans, since the 2008 median housing value is \$82,400. Residential lending to moderate income borrowers is reasonable as compared to the demographic data for moderate income families. In our sample, CNB made 15 percent of residential loans to moderate income borrowers during the evaluation period. The demographic data indicates 17 percent of families in the AA are moderate income.

The following table shows the distribution of home loan products among borrowers of different income levels.

Borrower Distribution of Residential Real Estate Loans in Hill County AA					
Totals		Income Levels			
		Low	Moderate	Middle	Upper
Number of Loans:	20	3	3	6	8
% of Number of Loans:	100%	15.00%	15.00%	30.00%	40.00%
\$ Amount in 000's:	1,519,734	100,500	187,000	545,203	670,900
% of \$ Amount of Loans:	100%	6.61%	12.30%	35.87%	44.15%

Source: Loan Sample

Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion throughout the AA.

Commercial loans:

Overall, the geographic distribution of commercial loans shows reasonable dispersion throughout the AA.

Our sample did not identify any commercial loans originated in low income census tracts during the evaluation period, because no low income census tracts exist in Hill County. The bank made 35 percent of the sampled loans to businesses located in moderate income census tracts. Also, 27 percent of the sampled commercial loans on a dollar basis were made in moderate income census tracts. This compares favorably to the demographic data which indicates 15 percent of all businesses in the AA are located in moderate income census tracts.

The following table reflects our commercial loan sample findings of the bank’s dispersion of loans to different census tracts.

Geographic Distribution of Business Loans in Hill County AA						
Census Tracts	Total	Low	Moderate	Middle	Upper	N/A
Number of Loans:	20	0	7	7	3	3
% of Number of Loans:	100%	0%	35%	35%	15%	15%
\$ Amount in 000's:	1,066,004	0	288,928	689,303	61,671	26,102
% of \$ Amount of Loans:	100%	0%	27%	65%	6%	2%

Source: Loan Sample

Residential loans:

The geographic distribution of residential loans shows reasonable dispersion throughout the AA.

Our sample did not identify any residential loans originated in low income census tracts during the evaluation period, because no low income census tracts exist in Hill County. CNB’s residential lending to moderate income census tracts is comparable to the

demographic data. As shown in the table below, 30 percent of total residential loans were made to borrowers in moderate income census tracts. Also, 15 percent of residential loans on a dollar basis were made in moderate income census tracts. This compares favorably to 8 percent of owner occupied housing located in these census tracts.

The following table reflects our residential loan sample findings of the bank’s dispersion of loans to different census tracts.

Geographic Distribution of Residential Real Estate Loans in Hill County AA					
Census Tracts	Total	Low	Moderate	Middle	Upper
Number of Loans:	20	0	6	13	1
% of Number of Loans:	100%	0%	30%	65%	5%
\$ Amount in 000's:	1,244,736	0	189,431	1,015,303	20,000
% of \$ Amount of Loans:	100%	0%	15%	83%	2%

Source: Loan Sample

Responses to Complaints

CNB did not receive any complaints or public comments regarding CRA performance during this evaluation period.

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 needs.