



## PUBLIC DISCLOSURE

February 26, 2018

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Citizens National Bank of Texas  
Charter Number 13516  
200 North Elm Street  
Waxahachie, TX 75165

Office of the Comptroller of the Currency  
Dallas Field Office  
225 E. John Carpenter Fwy, Suite 900  
Irving, TX 75062

**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: This institution is rated Satisfactory.**

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

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

The major factors supporting the institution's rating.

- The bank's loan-to-deposit (LTD) ratio is reasonable.
- A majority of loan originations and purchases are inside the bank's assessment areas (AAs).
- The distribution of home loans to borrowers and loans to small businesses reflects a reasonable penetration among borrowers of different income levels.
- Residential and business loans are reasonably distributed across the low-and moderate-income (LMI) census tracts.
- The overall level and responsiveness of community development (CD) lending, investments, and services is adequate.
- No consumer complaints regarding the bank's CRA performance were received during this evaluation period.

## 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:** 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

Citizens National Bank of Texas (CNBT or bank) is an intrastate full-service community bank headquartered in Waxahachie, Texas, located 30 miles south of downtown Dallas, Texas. CNBT was established in 1868 and received a national bank charter in 1884. The bank is wholly owned by First Citizens Bancshares, Inc., a single-bank holding company, the primary mission of which is the ownership of CNBT. The holding company is also headquartered out of Waxahachie, Texas. The previous CRA evaluation, dated January 20, 2015, assigned a “Satisfactory” rating to the bank.

There are no legal or financial impediments to CNBT’s ability to meet the credit needs of its AAs. We did not consider the activities of affiliates in this evaluation.

CNBT is a full-service bank offering a full range of deposit and loan products and services as well as online and telephone banking for individuals and businesses. Small business and commercial lending are CNBT’s primary business focus. Within the residential real estate loan portfolio, the bank originates mortgage loans for sale on the secondary market. Deposit products and services include free online checking accounts and low-cost individual and business accounts.

As of December 31, 2017, net loans of \$795 million were 84 percent of CNBT’s total assets of \$937 million. The following table is a summary of CNBT’s loan portfolio. The bank’s tier one capital as of December 31, 2017 was \$87 million.

Citizens National Bank of Texas Loan Portfolio Summary		
Loan Category	Dollar Volume (\$000s)	Percentage
Commercial and Commercial Real Estate	490,611	62%
Residential Real Estate	112,621	14%
Construction and Other	170,283	21%
Agriculture and Consumer	21,908	3%
Total	795,423	100%

Source: December 31, 2017 Report of Condition

CNBT’s physical offices are its primary delivery system for retail products and services. In addition to its main office in Waxahachie, the bank operates 11 full-service branches in Texas. One of the branch offices is located in a low-income CT in Ennis, Texas, and the bank’s main office and Italy, Texas branch are located in moderate-income geographies. The remaining branches are located in middle-income geographies with the exception of the Burleson, Texas branch which is in an upper-income CT.

In 2016, CNBT opened two new branch offices, one in Stephenville, Texas and one in Weatherford, Texas to expand services into new communities. The two new branch locations resulted in the AAs' footprint expanding to include Erath and Parker Counties, respectively.

The main office and all branches each have an ATM with 24 hour access. With the exception of the Italy, Texas and 9<sup>th</sup> Street Midlothian, Texas branches, the ATMs in the branches are full-service (accepting cash and check deposits). The bank's three standalone ATMs are cash-dispensing only. One is in Midlothian, Texas in a hotel lobby and two are in Waxahachie, Texas - one in the local hospital and the other in the downtown square.

CNBT's banking programs and hours allow the bank to deliver needed banking and credit services to LMI areas and customers as well as small business owners throughout the bank's AAs. Hours are commensurate with those of competing banks. CNBT offers on-line banking through its web site, [www.cnboftexas.com](http://www.cnboftexas.com). Bank customers can utilize on-line banking and the mobile app at no charge. Telephone banking and ATM services are available in English and Spanish. The main office and the branches either have employees who speak Spanish or can readily access employees at the bank's call center, which is open seven days a week. CNBT offers personal loans to qualified customers. The bank also offers loans for small businesses as well as SBA guaranteed loans. From January 1, 2015 through December 31, 2017, CNBT originated 19 SBA 7(a) loans totaling \$6.7 million to assist small business owners.

CNBT has two AAs located in Texas: the Erath Non-MSA and the Dallas–Fort Worth MSA. See Appendix B for a full discussion of the Dallas-Fort Worth MSA. The bank's major competitors are First Financial Bank, National Association; Ennis State Bank and Pinnacle Bank. CNBT is ranked 81st of the 530 FDIC-insured depository institutions operating in the state of Texas, holding a 0.10 percent deposit market share.

# Scope of the Evaluation

## Evaluation Period/Products Evaluated

CNBT is subject to the interagency Intermediate Small Bank (ISB) CRA evaluation procedures. As such, this Performance Evaluation (PE) assesses the bank's performance under the Lending and Community Development Tests. The evaluation period ranges from January 20, 2015, the date of the prior PE, through February 26, 2018, the date of the current evaluation. We identified commercial and commercial real estate loans (business loans) and residential real estate loans as the bank's primary loan products. The Lending Test concentrated on lending activity from January 1, 2016 to December 31, 2017. Lending activity beginning January 1, 2017 is evaluated using the 2015 American Community Survey (ACS) data. Therefore, in our evaluation of the distribution of loans, for 2016 we utilized the demographics and geographies related to the 2010 Census and for 2017 we utilized the ACS demographics and geographies.

In addition to the Lending Test, ISBs are evaluated under the Community Development Test. Our consideration of CD activity including loans, investments and services, extended from January 20, 2015 to our current evaluation date of February 26, 2018.

## Data Integrity

This evaluation is based on data as follows:

- We tested Home Mortgage Disclosure Act (HMDA) data for residential real estate loans reported by the bank during the review period to verify the accuracy of data used for this evaluation. We found the data reliable to use for this evaluation.
- To evaluate CNBT's performance relative to business lending in the Dallas-Fort Worth MSA, we selected a random sample of 40 business loans that were originated and purchased during 2016 and 40 in 2017. Due to the lower volume of lending in the Erath Non-MSA, we selected a random sample of 20 business loans from that AA for 2016 and 20 for 2017. Based on our testing of the sampled loans, we found the aggregate data reliable to use for this evaluation. Relative to Table 1 in this PE, we used the entire population of originated and purchased business loans. Table 3A for each of the two lending periods was completed using the population of business loans that were originated and purchased within the Dallas-Fort Worth MSA.

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

As previously noted, CNBT has delineated two AAs both located in Texas: the Dallas–Fort Worth MSA and the Erath Non-MSA. In March 2016, the Dallas-Fort Worth MSA was expanded to include Parker County as a result of the opening of the Weatherford, Texas branch office. In April 2016, the Erath Non-MSA was added due to the opening of the Stephenville, Texas branch.

We conducted a full-scope review of the Dallas-Fort Worth MSA. A full-scope review considers complete performance context information, quantitative factors and qualitative factors. The AA received the full-scope review because 99 percent of the bank’s deposits, 92 percent of its offices, and 89 percent of the number of originated and purchased HMDA-reported loans and business loans are in that area.

The Erath Non-MSA received a limited-scope review based on its figures of one percent of deposits, eight percent of offices, and 11 percent of loans, respectively. Limited-scope reviews consider primarily quantitative factors with performance context data limited to the comparable demographics.

The composition of the two AAs is detailed in Appendix A. Please refer to Appendix B for a discussion of the full-scope AA.

## **Ratings**

Ratings for this CRA evaluation are based primarily on the results of the full-scope area.

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

Pursuant to 12 C.F.R. §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 [or any affiliate whose loans have been considered as part of the institution's lending performance] 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

The bank’s performance under the Lending Test is rated “**Satisfactory.**”

### Loan-to-Deposit Ratio

CNBT’s LTD ratio is reasonable given the bank’s size, location, local competition, and the credit needs of the AAs. The LTD ratio is calculated on a bank-wide basis. This determination is based on the quarterly average LTD ratio of 88.62 percent from December 31, 2014 through December 31, 2017. During this evaluation period, CNBT’s LTD ratio ranged from a low of 86.35 percent to a high of 93.36 percent.

Management considers the banks shown in the following table to be similarly situated institutions (SSIs). All are community banks that actively offer similar loan products and have branch locations in the AAs.

The quarterly average LTD ratio for each SSI is listed in the following table. Please note that no ranking is intended or implied.

<b>Loan-to-Deposit Ratios</b>		
<b>Financial Institutions</b>	<b>Total Assets \$ (000's) (As of 12/31/2017)</b>	<b>Average Loan-to-Deposit Ratio</b>
<b>Citizens National Bank of Texas</b>	<b>937,446</b>	<b>88.62%</b>
First Financial Bank, N.A.	7,228,760	60.68%
Ennis State Bank	223,301	90.59%
Pinnacle Bank	1,304,817	69.04%

*Source: Institution Reports of Condition from December 31, 2014 to December 31, 2017.*

### Lending in Assessment Area

As calculated on a bank wide basis, a majority of the number and dollar amount of CNBT’s loans were originated or purchased inside its AAs. As depicted in Table 1 below, 71.56 percent of the number and 59.92 percent of the dollar amount of loans were originated or purchased inside the AAs.

Table 1 - Lending in Combined AAs										
Loan Type	Number of Loans					Dollars of Loans (\$000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	240	66.48	121	33.52	361	58,628	63.96	33,033	36.04	91,661
Home Improvement	57	87.69	8	12.31	65	5,841	90.03	647	9.97	6,488
Home Refinance	162	82.23	35	17.77	197	32,866	76.78	9,939	23.22	42,805
Business	701	70.24	297	29.76	998	290,499	57.37	215,852	42.63	506,351
Totals	1,160	71.56	461	28.44	1,621	387,834	59.92	259,471	40.08	647,305

Source: Data reported under HMDA and bank aggregated data.

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

CNBT's overall borrower distribution of loans is reasonable. The borrower distribution of loans within the Dallas-Fort Worth MSA is reasonable. The bank's performance in the Erath Non-MSA is generally consistent with the performance in the Dallas-Fort Worth MSA.

### **Dallas-Fort Worth MSA**

The borrower distribution of loans in the Dallas-Fort Worth MSA is reasonable. The distribution of residential real estate loans to borrowers and business loans to businesses of different sizes reflects a reasonable penetration among borrowers of different income levels.

#### *Residential Real Estate Loans*

The distribution of residential real estate loans among borrowers of different income levels is reasonable. As shown in Table 2 for the 2016 lending period, home improvement and refinance lending to moderate-income borrowers lags the percentage of families in that income level. However, the percentage of home purchase loans to moderate-income borrowers is comparable and is considered reasonable overall. As displayed in table 2i for the 2017 lending period, each type of residential loan to both moderate- and low-income borrowers lags the demographic. Similar to 2016, lending to the moderate-income borrowers has the more favorable comparison to the demographic than lending to the low-income borrowers, and is considered reasonable overall.

As eight percent of the families in the AA lived below the poverty level in 2016, this reduces the ability of the 20 percent of families in the AA that are low-income to qualify for residential loans. In 2017, the poverty level increased to nine percent as the percent

of low-income families rose to 21 percent. As low-income applicants typically have difficulty qualifying for residential real estate loans, we placed more weight on lending to the moderate-income borrowers. Please see the housing-related discussion in the market profile for the Dallas-Fort Worth MSA in Appendix B for additional information.

2016

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	20.03	10.34	18.48	15.52	21.65	13.79	39.84	60.34
Home Improvement	20.03	0.00	18.48	6.25	21.65	37.50	39.84	56.25
Home Refinance	20.03	4.48	18.48	7.46	21.65	16.42	39.84	71.64

Source: Data reported under HMDA; U.S. Census data.

2017

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	20.83	1.56	17.72	10.94	20.97	14.06	40.48	73.44
Home Improvement	20.83	3.85	17.72	7.69	20.97	11.54	40.48	76.92
Home Refinance	20.83	3.77	17.72	5.66	20.97	24.53	40.48	66.04

Source: Data reported under HMDA; U.S. Census data.

### **Business Loans**

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. As illustrated in the Tables 2A below for the 2016 and 2017 lending periods, the percentage of loans by number to small businesses is comparable to the percentage of small businesses in the AA. A small business is defined as a business with revenues of \$1 million or less. Although the percentage by the dollar volume of loans exceeded the demographic for both lending periods, we placed the most weight on the number of loans originated or purchased.

2016

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	88.46	3.50	8.04	100%
% of Bank Loans in AA by #	85.00	15.00	0.00	100%
% of Bank Loans in AA by \$	90.75	9.25	0.00	100%

Source: Loan sample data; Dun and Bradstreet data.

2017

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	88.60	3.54	7.87	100%
% of Bank Loans in AA by #	82.50	17.50	0.00	100%
% of Bank Loans in AA by \$	90.98	9.02	0.00	100%

Source: Loan sample data; Dun and Bradstreet data.

### **Limited-Scope AA**

Based on a limited-scope review, the bank's performance for borrower distribution of loans in the Erath Non-MSA is less favorable than the results of the Dallas-Fort Worth MSA. Although CNBT's performance relative to business lending in the Erath Non-MSA is consistent with the Dallas-Fort Worth MSA, CNBT has weaker borrower distribution performance for home mortgage loans in the Erath Non-MSA. However, it should be noted that 25 percent of the households in the limited-scope AA live below the poverty level.

### **Geographic Distribution of Loans**

The geographic distribution of loans in the Dallas-Fort Worth MSA is reasonable. As the Erath Non-MSA has no low- or moderate-income CTs in either the 2016 or 2017 lending periods, a meaningful analysis of the bank's performance for geographic distribution of loans could not be conducted. We did not identify any material or unexplained gaps in our analysis of lending in the AAs.

### **Dallas-Fort Worth MSA**

The geographic distribution of loans in the Dallas-Fort Worth MSA is reasonable. The distribution of residential real estate and business loans had a reasonable dispersion across the LMI CTs.

#### *Residential Real Estate Loans*

The bank's geographic distribution of residential real estate loans in the AA demonstrates a reasonable dispersion throughout the CTs of different income levels for both lending periods. We placed more weight on CNBT's lending performance in the moderate-income geographies as only three percent of the AA's owner-occupied housing is located in the low-income tracts.

As detailed in Table 3 for the 2016 lending period, all three residential lending categories originated in the low-income CTs exceeded the percentage of owner-occupied housing in those geographies. Relative to residential lending in the moderate-income tracts, home refinance loans exceeded the demographic, home purchase loans were below the demographic and home improvement loans lagged the percentage of owner-occupied housing in the moderate-income geographies. This represents a reasonable overall distribution of loans.

2016

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	2.69	15.00	14.69	12.00	54.72	42.00	27.90	31.00
Home Improvement	2.69	5.56	14.69	5.56	54.72	50.00	27.90	38.89
Home Refinance	2.69	5.13	14.69	15.38	54.72	46.15	27.90	33.33

Source: Data reported under HMDA; U.S. Census data.

As detailed in the following Table 3i for the 2017 lending period, the home purchase and home refinance lending in the low-income CTs exceeded the percentage of owner-occupied housing in those geographies while the bank's home improvement lending lagged the demographic. In the moderate-income tracts, a favorable comparison to the demographic was noted for home purchase loans. Home improvement and home refinance loans were below the percentage of owner-occupied housing. This represents a reasonable overall distribution of loans.

2017

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	3.12	8.57	13.02	16.19	49.84	43.81	34.02	31.43
Home Improvement	3.12	0.00	13.02	10.71	49.84	46.43	34.02	42.86
Home Refinance	3.12	4.23	13.02	11.27	49.84	50.70	34.02	33.80

Source: Data reported under HMDA; U.S. Census data.

### *Business Loans*

Business loans originated by the bank during the review period reflect an overall reasonable geographic dispersion. As detailed in Table 3A below for both the 2016 and 2017 lending periods, CNBT's lending to businesses located in the low-income CTs exceeds the percentage of businesses located in those geographies. The percentage of loans to businesses in the moderate-income tracts is below the percentage of businesses for 2016 and is comparable to the demographic in 2017. As 17 percent of the CTs in the AA are moderate-income for both years and only four percent and five percent of the tracts are low-income for 2016 and 2017, respectively, we placed more weight on the bank's performance in the moderate-income geographies. This represents a reasonable overall distribution of business lending.

2016

<b>Table 3A - Geographic Distribution of Loans to Businesses in Dallas-Fort Worth MSA</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 A Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Businesses	3.51	15.68	11.69	8.71	55.18	48.43	29.62	27.18

Source: Bank aggregated data; Dun and Bradstreet data.

2017

<b>Table 3A - Geographic Distribution of Loans to Businesses in Dallas-Fort Worth MSA</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 A Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Businesses	3.87	9.59	12.34	12.21	50.13	45.06	33.67	33.14

Source: Bank aggregated data; Dun and Bradstreet data.

### **Limited-Scope AA**

As the Erath Non-MSA has no low- or moderate-income CTs in either the 2016 or 2017 lending periods, a meaningful analysis of the bank's performance for geographic distribution of loans could not be conducted.

### **Responses to Complaints**

No CRA-related complaints were made against the bank during this evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

The bank's overall responsiveness to the community development needs of the AAs through CD lending, qualified investments, and CD services is adequate.

Our conclusion is based on CNBT's performance context, full scope review of the Dallas-Fort Worth MSA, and a limited scope review of the Erath Non-MSA. In the Erath Non-MSA there are limited opportunities for CD lending, qualified investment and CD service due to its rural nature and the lack of any LMI geographies. Further, the bank has not operated in Erath County for the full evaluation period.

As noted previously, the period for evaluating CD activities is January 20, 2015 to February 26, 2018.

### **Number and Amount of Community Development Loans**

The level of CD lending in the Dallas-Fort Worth MSA reflects an excellent responsiveness to CD needs. The level of CD lending in the Erath Non-MSA is not consistent with the full scope AA.

#### **Dallas-Fort Worth MSA**

The level of CD lending in the Dallas-Fort Worth MSA reflects excellent responsiveness to CD needs. CNBT originated 27 CD loans in the AA totaling \$5.6 million. Following is how the bank deployed loan proceeds to make a positive impact on the credit needs of the AA.

- CNBT originated 22 CD loans totaling \$4.1 million during the review period to four business customers whose business lines are rehabilitating residential properties that are typically in poor or distressed condition. These customers purchase and renovate the properties then rent to predominately LMI individuals. The AA has a need for affordable housing for LMI individuals and families. Working with these borrowers, CNBT helps fill this need.
- The bank originated two CD loans totaling \$64,000 for equipment for a small manufacturing firm in Ellis County that will allow for expansion. The activity promotes economic development through permanent job creation and the retention of lower-wage workers in a moderate-income census tract. Under this same CD criteria, CNBT originated a loan in the amount of \$1 million to an economic development agency in Midlothian to develop a 212 acre tract of land as a new business park for the city that is intended to attract new businesses and/or retain existing ones with access to a superior business location.
- CNBT originated a \$400,000 loan to facilitate improvements to and expansion of a medical-related retail business in a low-income CT in Waxahachie that serves local residents. This serves to stabilize a low-income area.

- The bank granted a \$64,000 loan to Ellis County Emergency Services to purchase a firetruck. The vehicle is designated to serve a section of the county 30 percent of which is designated LMI. Loan proceeds help meet essential community needs including the safety of LMI individuals and families.

### **Limited Scope AA**

The level of CD lending in the Erath Non-MSA is not consistent with the results of the Dallas-Fort Worth MSA. However, fewer opportunities were available due to the rural characteristics of the AA including a total population of 40,000 and no low- or moderate-income CTs. As noted previously, this AA was adopted by the bank upon the April 2016 opening of its Stephenville branch. The AA accounts for only one percent of the bank's total deposits as of June 30, 2017.

### **Product Innovation and Flexibility**

Flexible and innovative loan programs had a neutral impact on the bank's lending performance in the Dallas-Fort Worth MSA.

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

The level of qualified investments in the Dallas-Fort Worth MSA reflects an adequate responsiveness to CD needs. The level of qualified investments in the Erath Non-MSA is not consistent with the full scope AA.

### **Dallas-Fort Worth MSA**

The level of qualified investments in the Dallas-Fort Worth MSA reflects an adequate responsiveness to the CD needs of the AA.

The bank made 200 qualifying donations totaling \$314,000 during the evaluation period. Following are examples of how the donations made a positive impact on the AA:

- \$77,000 in cash donations to the United Way of West Ellis County. United Way distributes the funds to more than a dozen local non-profit organizations that exist primarily to serve LMI individuals and families. CNBT match funded the United Way contributions of bank staff.
- \$22,000 to the Waxahachie Chamber of Commerce which encourages, supports and promotes small businesses through a variety of programs and events.
- \$5,000 to Hope Clinic of Ennis which provides health care to underserved LMI individuals and families.

- \$10,000 to 360 Grass Roots to revitalize the historic Anderson Farmstead of Midlothian which will provide over 50 permanent lower-wage retail jobs to local residents.
- \$5,000 to the Midlothian Senior Center to assist in its expansion. The Center provides social services; assistance with utilities, food stamps and other programs; nutrition education; daily meals; transportation; and recreational activities to the LMI senior community.
- \$5,000 to Bankers for Backpacks supports low-income students by providing needed school supplies, clothes, medical aids and backpacks.

CNBT has also established the Singleton Scholarship Fund that provides scholarships in the amount of \$8,000 to low- and moderate-income students. During the evaluation period, the bank funded \$576,000 in scholarships to 72 LMI students in the Dallas-Fort Worth MSA.

### **Limited Scope AA**

The level of qualified investments in the Erath Non-MSA is not consistent with the results of the full-scope AA. As discussed in the Community Development Loan section, fewer opportunities were available due to the rural characteristics of the Erath Non-MSA and the absence of any LMI CTs.

### **Broader Statewide Area**

In addition to the qualified donations that benefit the bank's AAs, CNBT made one \$3 million qualified investment during the evaluation period in the broader statewide area. To-date, the bank has funded \$768,000 of this equity investment with Valesco Fund II, LP, a Small Business Investment Company (SBIC) fund that is licensed by the SBA. This investment is intended to create or retain permanent jobs for lower-wage workers. In addition, three prior period, long-term SBIC investments are still outstanding at the end of the current evaluation period. Their current combined book value is \$862,000. Investments made in prior periods continue to have a positive impact on the broader statewide area. We gave positive consideration to these qualified investments as the bank has met the CD needs in its defined AAs.

### **Outside Regional Area**

In the prior period, CNBT made a \$3 million qualified investment with Pharos Capital Partners III, LP. This SBIC fund has invested in healthcare companies nationally. The current book value of this investment is \$1.2 million.

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

The level of CD services in the Dallas-Fort Worth MSA reflects an adequate responsiveness to CD needs. The level of CD services in the Erath Non-MSA is not consistent with the full scope AA.

### **Dallas-Fort Worth MSA**

The level of CD services in the Dallas-Fort Worth MSA reflects an adequate responsiveness to the CD needs of the AA. Twenty-four bank employees provided their expertise to 17 CD organizations within the AA. Of the 24 employees, eight served in leadership roles for these organizations, either on the board, as treasurer, or as a committee member, many on a continuing basis to the organizations. This equates to 33 percent of engaged employees serving in leadership positions within the AA.

CD service occurrences (in parentheses) are categorized below by CD criteria that either benefit LMI individuals, families or geographies. Included are some of the CD organizations that bank staff assisted in their mission through the use of their financial and leadership skills:

- Community services (390) – The Gingerbread House of Ellis County, Waxahachie Lions Club, Bankers for Backpacks, United Way of Ellis County, and CASA of Ellis County.
- Economic development (228) – Waxahachie Strategic Planning and Industrial Development, Waxahachie Tax Increment Finance Zone, and Red Oak Chamber of Commerce.
- Revitalization or stabilization (38) – Waxahachie Partnership, Incorporated.

### **Limited Scope AA**

The level of CD services in the Erath Non-MSA is not consistent with the results of the Dallas-Fort Worth MSA. Fewer opportunities were available due to the rural characteristics of the AA including a total population of 40,000 and no low- or moderate-income CTs. As noted previously, this AA was adopted by the bank upon the April 2016 opening of its Stephenville branch. The AA accounts for only one percent of the bank's total deposits as of June 30, 2017.

## **Responsiveness to Community Development Needs**

The bank demonstrates an overall adequate responsiveness to the community development needs of its AAs. The bank has invested time, personnel resources, and financing commitment to CD activities that benefit small businesses, community organizations, LMI individuals and LMI geographies within its AAs.

### **Dallas-Fort Worth MSA**

The bank reflects an adequate responsiveness to the CD needs of this AA. The board has identified affordable housing, economic development, revitalization and stabilization, and basic community services such as public safety; life care for LMI children/youth, families and seniors; education for LMI students; and health care/education for LMI children and seniors as its CD goals.

### **Limited Scope AA**

Although the level of CD lending, investments and services in the Erath Non-MSA is weaker than the Dallas-Fort Worth MSA, we consider the overall performance in the limited-scope AA to be consistent with the adequate responsiveness in the Dallas-Fort Worth MSA. Due to its rural nature and the lack of any LMI geographies, the Erath Non-MSA has limited opportunities for CD lending, qualified investment and CD service. Further, the bank has not operated in the AA for the full evaluation period.

# 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): 01/01/2016 – 12/31/2017 Community Development Test: 01/20/2015 – 02/26/2018	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
Citizens National Bank of Texas (CNBT or bank) Waxahachie, Texas	Commercial Loans Commercial Real Estate Loans Residential Real Estate Loans Community Development Loans Qualified Investments Community Development Services	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
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>
Texas		
Dallas-Fort Worth MSA	Full-Scope	Ellis County, Parker County, southern Dallas County, south-central Tarrant County and northern Johnson County.
Erath Non-MSA	Limited-Scope	Erath County.

## Appendix B: Community Profiles for Full-Scope Area

2016 Demographic Information for Full-Scope Area: Dallas-Fort Worth MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	100	4	17	55	24	0
Population by Geography	567,047	3.88	16.57	54.76	24.79	0
Owner-Occupied Housing by Geography	142,270	2.69	14.69	54.72	27.90	0
Businesses by Geography	34,666	3.51	11.69	55.18	29.62	0
Farms by Geography	1,346	2.01	11.96	55.87	30.16	0
Family Distribution by Income Level	142,827	20.03	18.48	21.65	39.84	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	55,003	7.07	23.99	54.55	14.39	0
Median Family Income FFIEC Adjusted Median Family Income for 2016 Households Below Poverty Level	= \$67,143 = \$70,668 = 9.73%		Median Housing Value Unemployment Rate		= \$136,934 #	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2010 U.S. Census, 2016 FFIEC updated MFI and Bureau of Labor and Statistics.  
#See discussion in narrative.

2017 Demographic Information for Full-Scope Area: Dallas-Fort Worth MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	100	5	17	52	26	0
Population by Geography	596,202	4.77	15.57	51.41	28.25	0
Owner-Occupied Housing by Geography	147,038	3.12	13.02	49.84	34.02	0
Businesses by Geography	36,811	3.87	12.34	50.13	33.67	0
Farms by Geography	1,397	2.93	10.02	48.32	38.73	0
Family Distribution by Income Level	154,497	20.83	17.72	20.97	40.48	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	59,563	8.22	21.37	52.65	17.76	0
Median Family Income FFIEC Adjusted Median Family Income for 2017 Households Below Poverty Level	= \$72,988 = \$72,325 = 11.00		Median Housing Value Unemployment Rate		= \$146,429 #	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2015 U.S. Census American Community Survey, 2017 FFIEC updated MFI and Bureau of Labor and Statistics.  
# See discussion in narrative.

The Dallas-Fort Worth MSA was expanded by CNBT in conjunction with the opening of the Weatherford branch (Parker County) in March 2016. The AA now consists of all of Ellis and Parker counties, southern Dallas County, south-central Tarrant County and northern Johnson County. The bank delineates only a portion of the U.S. Census Dallas-Fort Worth-Arlington, TX MSA as its AA. Parker, Tarrant, and Johnson counties are part of the Fort Worth-Arlington, TX Metropolitan Division (MD), and Dallas and Ellis Counties are part of the Dallas-Plano-Irving, TX MD.

The AA is comprised of 100 CTs (five low-income, 17 moderate-income, 52 middle-income, and 26 upper-income). Low- and moderate-income tracts represent 22 percent of the total geography. CNBT's main office and ten of its 11 branches are in this AA as shown in the table below.

<b>Branch Locations</b>			
<b>County/Office Name</b>	<b>Facility Type</b>	<b>Census Tract Number</b>	<b>Census Tract Income Level</b>
Ellis County:			
Waxahachie - Downtown	Main Office & ATM	0604.00	Moderate
Waxahachie - Uptown	Branch & ATM	0606.00	Middle
Waxahachie- HEB grocery store	Branch & ATM	0606.00	Middle
Ennis	Branch & ATM	0616.00	Low
Italy	Branch & ATM*	0610.00	Moderate
Midlothian 9 <sup>th</sup> Street	Branch & ATM*	0607.02	Middle
Midlothian Main Street	Branch & ATM	0607.02	Middle
Red Oak	Branch & ATM	0602.06	Middle
Dallas County:			
Cedar Hill	Branch & ATM	0165.22	Middle
Johnson County:			
Burleson	Branch & ATM	1302.15	Upper
Parker County:			
Weatherford	Branch & ATM	1402.00	Middle
<i>Source: Census data is per 2015 American Community Survey.</i>			
<i>*Cash-dispensing only.</i>			

The bank has properly defined its AA in accordance with the technical requirements of the regulation. The AA consists of whole geographies, does not arbitrarily exclude LMI geographies, includes CTs where CNBT deposit accepting offices are located, and does not reflect illegal discrimination.

The AA includes the major cities of Waxahachie, Weatherford, Burleson, Ennis, and Midlothian. According to the 2015 ACS data, the AA has a population of 596,202. Owner-occupied housing units represent 68 percent of total housing in the AA, while rental occupied housing units represent another 25 percent. Only 3.12 percent of the owner-occupied housing exists within low-income geographies compared with 13.02 percent in moderate-income areas.

Low-income households are well below the percentage of moderate-income households in the AA, at 4.38 percent compared to 15 percent. While 11 percent of households in the AA live below the poverty level, 29.25 percent and 16.69 percent of those households are located in low-income and moderate-income geographies, respectively. Low-income families represent 20.83 percent of the AA compared to moderate-income at 17.72 percent.

The median value of housing in the AA is \$146,429 and the median age of existing housing stock is 26 years old. In low-income and moderate-income geographies, the median value of housing is \$73,903 and \$91,480, respectively, at a median age of 33 years old for both CT income categories. Older housing often has higher maintenance costs and frequently requires significant repairs to meet code requirements, while also often less energy efficient resulting in higher utility costs. Higher property taxes further increase the costs of home ownership. These and other factors such as the down payment requirement for traditional mortgage loan financings pose an obstacle for access to homeownership opportunities for LMI families, particularly the low-income applicants.

According to the Bureau of Labor Statistics, the December 2017 unemployment rates are 2.9 percent for Parker County, 3.0 percent for Ellis County, 3.2 percent for Johnson and Tarrant Counties and 3.3 percent for Dallas County. All compare favorably to the state of Texas and U.S. unemployment rates of 3.7 percent and 4.1 percent, respectively.

The AA is a very competitive banking environment filled with branch offices of large national and regional banks, community banks, and credit unions. According to the June 30, 2017 FDIC Deposit Market Share Report, there a total of 37 banks operating 130 branches within the AA. With a total of 11 deposit-taking facilities in the AA, CNBT is ranked first overall in total market share with 11.95 percent and deposits totaling \$803 million. Other banks filling the top five positions are First Financial Bank, National Association (headquartered in Abilene, TX); Wells Fargo Bank, National Association; Compass Bank and Bank of America, National Association, with respective deposit market shares of 9.59 percent, 9.36 percent, 8.49 percent and 6.66 percent.

According to the *Moody's Analytics* Report for July 2017, job growth in the Fort Worth-Arlington, TX MD remains moderately above the national average. Core manufacturing is the leading industry due to the production at Lockheed Martin of the F-35 fighter jet. The company has hired more than 500 workers in the area of aircraft and avionics mechanics, painters, and material handlers. Government employment has also contributed where growth in construction jobs has waned. Recent performance in the Dallas-Plano-Irving, TX MD reflects a short-term slowing of the economy after a multiyear period of job growth. Nonetheless, core professional services continue to rise at an above-average pace. Medical and professional fields reflect good growth with ongoing capital expenditures.

Currently, three key local industrial firms along the Interstate-35 corridor in Waxahachie are expanding. Additionally, the retail corridor is adding two new large retail shopping centers, one recently opened and anchored by Academy Sporting Goods, and another 31 acre retail development to be anchored by Atwoods Ranch and Home, a farm and ranch supply center. Housing is growing at a rapid pace with 2,500 new residential sites approved within the city of Waxahachie. There are 1,720 apartments in the city which are currently 93 percent occupied, with another 110 units under construction and scheduled to be complete by July 2018. There are two senior living projects under consideration. The new Baylor, Scott & White hospital is exceeding expectations, with the sixth floor recently opened adding 40-45 new beds. The hospital is expected to be designated a Regional Hospital serving a four-county area. A recently built Fairfield Inn (opened in September 2017) near the hospital serves the area as well as traffic along the I-35 corridor. Navarro College is continuing to expand and is projecting the number of students to grow to 10,000 students by year 2025.

A community contact interview with a management official of the City of Burleson was conducted at a recent CRA evaluation of another local financial institution. The contact indicated that current lending opportunities for local banks include affordable housing to LMI individuals and families, small business startup loans, and working capital and expansion loans to existing businesses.

A community contact interview with a management official of the City of Waxahachie stated the current primary focus for the City is managing growth expanding from the D/FW metroplex and maintaining the quality of life for Waxahachie citizens. The revitalized and historic downtown area is primarily low- and moderate-income neighborhoods. The official indicated the need for all levels of housing finance is the highest priority, together with business financing to support the industrial and retail growth in the area.