



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 16, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Citizens National Bank
Charter Number 12594

182 Main Street
Putnam, CT 06260

Office of the Comptroller of the Currency

NEW YORK METRO-NORTH
340 Madison Avenue, Fourth Floor
New York, NY 10173-0002

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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

The major factors supporting the institution's rating include:

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, assessment area credit needs, and relevant competitive factors;
- A substantial majority of loans originated are within the bank's assessment area;
- The distribution of loans represents an excellent penetration among borrowers of different incomes and businesses of different sizes; and
- The geographic distribution reflects a reasonable dispersion throughout census tracts of different income levels.

SCOPE OF EXAMINATION

The Citizens National Bank (CNB) was evaluated under the Small Bank Community Reinvestment Act (CRA) examination procedures. The Lending Test covers the bank's performance from January 1, 2006 through December 31, 2008, as this is representative of its lending strategy since the last CRA examination. Loans to small businesses and home purchase loans were determined to be the bank's primary loan products during the evaluation period. We randomly selected 20 home purchase loans and 20 small business loans from internal bank reports over the period of January 1, 2006 through December 31, 2008 to determine the bank's lending performance.

DESCRIPTION OF INSTITUTION

Citizens National Bank (CNB), an intrastate community bank, was established in 1924 and is a wholly owned subsidiary of Citizens National Bancorp, Inc. As of December 31, 2008, CNB had total assets of \$295 million and tier one capital of \$33 million. CNB does not have subsidiaries or affiliates. There have been no changes to CNB's corporate structure, including merger or acquisition activities, since the previous examination.

CNB has its main office in Putnam, Connecticut. In addition to the main office, CNB has four branch offices located in Northeast Connecticut in the towns of Thompson, Woodstock, Killingly, and Brooklyn. The main office and branches are all full service banking offices and each supports an automated teller machine (ATM). All offices have normal business hours during the week and offer Saturday lobby and drive-up hours. In addition, CNB has two remote ATMs located at Day Kimball Hospital and Gerardi Insurance Services, Inc., both located in Putnam. No branches have opened or closed during the evaluation period.

The bank offers a variety of deposit products, loan products, and services to meet consumer and commercial banking needs. The bank's Internet website, www.cnbct.com, provides detailed information on the products and services offered for both consumers and businesses.

As of December 31, 2008, CNB reported \$108 million in net loans and \$162 million in total deposits. Net loans represented 36% of total assets and 66% of total deposits. The primary lending products are small business loans and residential mortgage loans. The bank's loan portfolio is comprised as follows:

Loan Portfolio Summary by Loan Product December 31, 2008	
Loan Category	% of Outstanding Dollars
1- 4 Family Real Estate Loans	41%
Commercial Real Estate Loans	57%
Individual Loans	2%

Competition for loans and deposits is strong. Some of CNB's primary competitors are: Savings Institute Bank and Trust Company, Putnam Bank, Bank of America, New Alliance Bank, Jewett City Savings Bank, and Peoples United Bank.

There are no legal, financial or other factors impeding CNB's ability to help meet the credit needs of its Assessment Area (AA). CNB received a "Satisfactory" rating on its last performance evaluation, dated November 17, 2003.

DESCRIPTION OF ASSESSMENT AREA(S)

CNB has one assessment area (AA) within the state of Connecticut. The AA includes the following townships: Putnam, Woodstock, Thompson, Eastford, Pomfret, Killingly, Brooklyn, and Hampton. These townships are part of the Windham County Non-MSA. The Windham County Non-MSA contains a total of 25 census tracts, and the bank designated the 12 census tracts it could reasonably service. The AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

The following table describes the demographics of the AA:

Citizens National Bank Non-MSA

Demographic Information for Full Scope Area: Citizens National Bank Non-MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	12	0.00	33.33	66.67	0.00	0.00
Population by Geography	55,920	0.00	37.93	62.07	0.00	0.00
Owner-Occupied Housing by Geography	15,253	0.00	32.20	67.80	0.00	0.00
Business by Geography	4,422	0.00	38.15	61.85	0.00	0.00
Farms by Geography	160	0.00	13.13	86.88	0.00	0.00
Family Distribution by Income Level	15,022	21.38	21.84	26.01	30.77	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	6,492	0.00	45.75	54.25	0.00	0.00
Median Family Income		61,239	Median Housing Value		121,872	
HUD Adjusted Median Family Income for 2008		76,900	Unemployment Rate (2000 US Census)		2.39%	
Households Below Poverty Level		6%				

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source: 2000 US Census and 2008 HUD updated MFI

Windham County is located in Northeastern Connecticut. The area includes rural sections and older homes, with many long-time homeowners. The retail trade industry comprises the largest segment of total industry in the county, 28.9%. Manufacturing, which historically comprised the majority of jobs in the county, has since decreased to 3.8% of total jobs. Many jobs in this sector have been lost permanently as firms relocated, cut positions, or sent manufacturing jobs overseas. The top five employers in Windham County are: the Town of Windham, Eastern Connecticut University, Windham Community Memorial, Wal-Mart Stores Inc., and BICC General Cable Corp.

According to the Bureau of Labor Statistics, the unemployment rate in Windham County increased from 8.1% in December 2008 to 9.5% in January 2009. The county's unemployment rate exceeds both state and national levels. The Connecticut state unemployment rate increased from 6.6% in December 2008 to 7.9% in January 2009 and the national unemployment rate increased from 7.2% in December 2008 to 7.6% in January 2009.

There are twelve census tracts (CTs) in the AA. Four CTs are moderate-income (33%), and eight CTs are middle-income (67%). There are no low-income or upper-income tracts in the AA.

The 2000 U.S. Census reported the total population of the AA at 55,920. The 2000 median family income was \$61,239, and the 2008 HUD updated median family income was \$76,900. Within the AA, there are 15,022 families. Approximately 21.38% of the families are low-income, 21.84% are moderate-income, 26.01% are middle-income, and

30.77% are upper-income. Approximately 6.49% of the households are below the poverty level. The median cost of housing in the AA is \$121,872.

According to the 2008 business demographics, there are a total of 4,422 businesses in the AA. Approximately 64% of the businesses reporting have revenues less than \$1 million, approximately 5% have revenues greater than \$1 million, and the revenue was not reported for approximately 31% of the businesses. Approximately 38% of businesses are located in moderate-income geographies and 62% are located in middle-income geographies.

Competition in the AA is strong. According to the June 30, 2008 FDIC Summary of Deposit Market Share Report, CNB was ranked third out of ten institutions in the Windham County non-MSA with an 11.96% deposit market share. Savings Institute Bank and Trust Company is ranked first with seven offices inside the local market and a 20.64% deposit market share. Other financial institutions include: Putnam Bank with five offices an 18.59% deposit market share, Bank of America with five offices and an 11.84% deposit market share, New Alliance Bank with six offices and an 11.77% deposit market share, Liberty Bank with two offices and a 9.70% deposit market share, Jewett City Savings Bank with three offices and a 6.29% deposit market share, Peoples United Bank with three offices and a 4.72% deposit market share, RBS Citizens' National Association with one office and a 3.19% deposit market share, and Eastern Federal Bank with one office and a 1.30% deposit market share.

According to the 2008 HMDA Peer Mortgage Data, 260 lenders originated HMDA loans in the AA. Countrywide Home Loans ranked first with a market share of 7.35%. CNB was not ranked among its peers because it is not a HMDA reporter. Other competitors consisted of large national banks and mortgage companies, large regional banks, local community banks, and mortgage brokers with nationwide sources of funding.

During this examination, we contacted the local government Economic Development Department. The Department is a strong advocate for the business community and works closely with local organizations. The Department encourages local companies to expand and create new and better jobs in county. In addition, they help attract new businesses by marketing the community. The contact stated that even though there are limited lending opportunities, the local banks have done a good job of lending in the community, and they have invested in the Community Economic Development Fund. This fund is used for small business start-ups, affordable housing and other revitalization projects, and it is primarily geared toward areas that are designated as distressed or underserved.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

CNB's performance under the lending test is satisfactory. CNB's quarterly average net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. A substantial majority of the bank's primary loan products were made within the bank's AA. The distribution of loans reflects excellent penetration among

borrowers of different incomes and businesses of different sizes. The geographic distribution of loans reflects reasonable dispersion throughout census tracts of different income levels. All criteria of the lending test are documented below:

Loan-to-Deposit Ratio

CNB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. The bank's quarterly average net loan-to-deposit ratio over the 24 quarters since the last CRA examination was 59.98%. The net loan-to-deposit ratio of domestic commercial banks with assets between \$100M and \$500M in Connecticut was 85.67% during the same 24 quarters. CNB's quarterly average net loan-to-deposit ratio has been increasing since the prior CRA examination, and has been over 60% for the last 12 quarters. The bank's strategy is to maintain a maximum LTD ratio of 75%. Additionally, there is intense competition for loans in the local market. Therefore, CNB's loan-to-deposit ratio is considered satisfactory.

Lending in Assessment Area

A substantial majority of the small business and home purchase loans were made within the bank's AA. During the evaluation period, 89% of the small business and home purchase loans were made within the AA.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The distribution of loans reflects excellent penetration among borrowers of different incomes and businesses of different sizes and exceeds the standard for satisfactory performance.

Home Purchase Loans

The distribution of home purchase loans reflects excellent penetration among borrowers of different incomes.

The percentage of home purchase loans made to low-income borrowers is significantly lower than the percentage of low-income families in the AA. However, it is difficult for low-income borrowers to afford housing in the AA. Based on the 2000 U.S. Census data, the median cost of housing in the MSA is \$121,872. The 2008 HUD updated median family income is \$76,900, which means low-income borrowers earn less than \$38,450. Additionally, 6% of households are below the poverty level. Based on these statistics, it would be difficult for low-income borrowers to purchase housing in the AA. Therefore, we placed more emphasis on the bank's moderate-income performance. The percentage of home purchase loans made to moderate-income borrowers significantly exceeds the percentage of moderate-income families in the AA.

The following table shows the distribution of home purchase loans among borrowers of different income levels as compared to the percent of families in each income category:

Borrower Distribution of Residential Real Estate Loans in AA								
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	21.38	5.00	21.84	50.00	26.01	40.00	30.77	5.00

Source: Sample of 20 home purchase loans from 1/1/06 – 12/31/08; 2000 U.S. Census data

Small Business Loans

The distribution of loans to businesses reflects excellent penetration among businesses of different sizes. CNB’s record of lending to businesses of different sizes exceeds the standards for satisfactory performance. Approximately 64% of businesses in the AA have revenues of \$1 million or less, and 100% of the loans in the sample were made to businesses with revenues of \$1 million or less. All 20 loans sampled were made to small businesses.

The following table details the bank’s performance in lending to businesses of different sizes

Borrower Distribution of Loans to Businesses by Loan Size in AA				
Loan Size (000’s)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	18	90%	\$753,000	68%
\$100,001 - \$250,000	2	10%	\$353,000	32%
\$250,001 - \$500,000	0	0%	\$0	0%
\$500,001 - \$1,000,000	0	0%	\$0	0%
Over \$1,000,000	0	0%	\$0	0%

Source: Sample of 20 small business loans from 1/1/06-12/31/08; 2000 Business PCI Corporation CRA Wiz

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout census tracts of different income levels, and CNB’s performance meets the standard for satisfactory performance. No conspicuous gaps or areas of low penetration were identified.

Home Purchase Loans

The geographic distribution of home purchase loans reflects reasonable dispersion throughout census tracts of different income levels, and CNB’s performance meets the

standard for satisfactory performance. There are no low-income geographies in the AA.

The percentage of home purchase loans made in moderate-income geographies is lower than the percentage of owner-occupied housing units in these geographies. CNB’s performance is reasonable when taking into consideration the strong competition from larger mortgage lenders in the AA.

The following table details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level:

Geographic Distribution of Home Purchase Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	32.20	25.00	67.80	75.00	0.00	0.00

Source: Sample of 20 home purchase loans from 1/1/06 – 12/31/08; 2000 U.S. Census data

Small Business Loans

The geographic distribution of loans to businesses reflects excellent dispersion throughout census tracts of different income levels. The percentage of loans made to businesses in moderate-income census tracts exceeds the percentage of businesses located in moderate-income census tracts.

The following table details the bank’s performance as compared to the percentage of businesses in each census tract income level.

Geographic Distribution of Loans to Businesses in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Small Business	0.00	0.00	38.15	40.00	61.85	60.00	0.00	0.00

Source: CNB’s HMDA data 1/1/06 – 12/31/08; 2008 Dunn & Bradstreet Data

Responses to Complaints

The bank has not received any CRA-related consumer complaints since the last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs..