



## Intermediate Small Bank

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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### **PUBLIC DISCLOSURE**

**January 3, 2007**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Citizens National Bank of Paintsville  
Charter Number 13023**

**620 Broadway Avenue  
Paintsville, KY 41240**

**Comptroller of the Currency  
Virginia Field Office  
3800 Electric Road, Suite 204  
Roanoke, VA 24018**

*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.*

**Table of Contents**

*INSTITUTION'S CRA RATING* ..... 1

*Scope of Examination*..... 1

*Description of Institution*..... 1

*Description of Assessment Areas*..... 2

*Conclusions About Performance Tests* ..... 2

*Fair Lending or Other Illegal Credit Practices Review* ..... 6

# INSTITUTION'S CRA RATING

## **This institution is rated Outstanding.**

The Lending Test is rated: **SATISFACTORY**

The Community Development Test is rated: **OUTSTANDING**

The major facts that support this rating include:

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the assessment areas (AA) credit needs.
- The bank made a majority of its loans within its AA.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.
- The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels (including low- and moderate-income and businesses of different sizes).
- The bank's community development performance demonstrates excellent responsiveness to community development needs in its AA.

## **Scope of Examination**

This Performance Evaluation assesses the bank's performance under the Lending and Community Development Tests for Intermediate Small Banks. The evaluation under the Lending Test covers the bank's performance from January 1, 2005 through December 31, 2006, excluding community development loans. We sampled small loans to businesses, consumer, and home mortgage loans originated between January 1, 2005 and December 31, 2006 using numerical sampling methodology defined in the Comptroller's Handbook, Sampling Methodologies, dated August 1998. Primary loan products were selected based on the bank's business strategy, the volume of originations, and balances outstanding as of September 30, 2006. The evaluation period for community development loans, investments, and services is September 30, 2003 through January 3, 2007.

The Lending Test analysis is based on the bank's performance during the evaluation period using comparative demographic data from the 2000 U.S. Census.

## **Description of Institution**

Citizens National Bank (CNB) is a \$447 million intrastate bank, established as a national bank in 1927 and headquartered in Paintsville, Kentucky. CNB is owned by Citizens National Corporation (CNC), a \$447 million holding company as of December 31, 2006. CNB has one subsidiary, CNC Development Foundation (CNCDF), which the U.S. Department of the Treasury approved as a community development entity (CDE) in 2002. CNC stock is listed on the OTC Bulletin Board under the symbol CZNL.

CNB is a full-service community bank serving the counties of Johnson, Magoffin, Floyd, and Pike in the Big Sandy Area of eastern Kentucky. CNB also serves the counties of Boyd, Carter and Greenup as a result of its acquisition in June 2006 of Heritage Bank located in Ashland, KY. CNB operates 14 full-service branches and nine ATMs in three AAs. The bank's primary focus is on retail banking. Products and services include a variety of demand deposit accounts, savings and investment products, trust services, and loan products. Customers may access information on bank products and services, and conduct certain transactions by mail, telephone, and through the internet in addition to access through CNB branches and ATMs. The bank also provides an array of credit and deposit services for businesses.

CNB acquired three branch offices with the acquisition of Heritage Bank. One branch is located in a moderate-income tract, one in a middle-income tract, and one in an upper-income tract. The bank closed no branches during the evaluation period.

Based on outstandings, loans to businesses are a major product, followed by home mortgages. At September 30, 2006, net loans were \$267 million, which equaled 59% of total assets. Net loans were distributed as follows: 47% commercial and industrial loans including commercial real estate, 40% secured by residential real estate, 8% to individuals, 3% construction and development loans, 2% all others. Tier 1 Capital was \$35.4 million.

During the evaluation period, there were no legal, financial or other factors impeding the bank's ability to help meet the credit needs in its AA. The bank received an "Outstanding" rating in its September 2003 CRA Performance Evaluation.

## **Description of Assessment Areas**

CNB has defined three assessment areas: a non-MSA AA consisting of Floyd, Johnson, Pike and Magoffin counties; an MSA AA consisting of Boyd and Greenup counties; and a non-MSA AA made up of Carter County. The MSA AA and the Carter County AA are a direct result of the bank's acquisition of Heritage Bank in June 2006.

We conducted one community contact and reviewed one community contact conducted in 2005. Both organizations address affordable housing needs in areas that include the bank's AA. Both organizations identified participation in available loan programs as a way for banks to be involved in meeting identified housing needs.

## **Conclusions About Performance Tests**

CNB's rating is based on the bank's performance in the non-MSA AA of Floyd, Johnson, Pike and Magoffin counties. Too little time had elapsed since the acquisition of Heritage Bank to conduct a fair and valid analysis of the bank's performance in the acquired AAs. CNB was evaluated as an Intermediate Small Bank as defined in 12 CFR 25, the implementing regulation for the Community Reinvestment Act.

## Lending Test

### Loan-to-Deposit Ratio

CNB's average loan-to-deposit ratio is reasonable. The bank's quarterly average loan-to-deposit ratio since the last CRA examination is 66%. CNB's primary competitors in the non-MSA AA are Community Trust Bank, Inc. and Branch Banking and Trust Co. There are no similarly situated banks in the non-MSA AA.

### Lending in Assessment Areas

A majority of loans sampled were inside the bank's AA. For the evaluation period, 74% of business loans, 89% of consumer loans, and 81% of home mortgage loans, a blended average of 79%, were made inside the bank's AA.

| Loan Type           | Number of Loans |       |         |       | Total | Dollars of Loans (000s) |       |         |       |        |
|---------------------|-----------------|-------|---------|-------|-------|-------------------------|-------|---------|-------|--------|
|                     | Inside          |       | Outside |       |       | Inside                  |       | Outside |       | Total  |
|                     | #               | %     | #       | %     |       | \$                      | %     | \$      | %     |        |
| Loans to businesses | 51              | 73.91 | 18      | 26.09 | 69    | 4,592                   | 56.51 | 3,533   | 43.49 | 8,125  |
| Consumer Loans      | 25              | 89.29 | 3       | 10.71 | 28    | 159                     | 78.15 | 45      | 21.85 | 204    |
| Home Mortgage Loans | 26              | 81.25 | 6       | 18.75 | 32    | 2,122                   | 68.90 | 958     | 31.10 | 3,080  |
| Totals              | 102             | 79.07 | 27      | 20.93 | 129   | 6,873                   | 60.24 | 4,536   | 39.76 | 11,409 |

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

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. The distribution of home mortgage, consumer and business loans was reasonable. A majority of loans to businesses were for amounts less than \$100,000.

We considered that opportunities to lend to low- and moderate-income borrowers in the AA are very limited. As of 2004, an estimated 24.7% of persons in the AA were living under the poverty level, compared to 16.3% at the state level, and 12.7% at the national level.

We also considered that the distribution of loans to businesses by gross annual revenue is distorted due to the manner in which CNB manages floor plan relationships with car and mobile home dealers. Banks traditionally book loans to auto and mobile home dealers, for the purchase of inventory for resale, under a single master note. CNB, however, books these types of loans individually, assigning separate loan numbers for each auto or mobile home purchased for resale. The percentage of loans to businesses with less than \$1 million in gross annual revenues is over 55% if the total number of loans to auto and mobile home dealers is adjusted to reflect a more traditional approach to floor plan lending. Additionally, most of the loans to borrowers with unknown business revenues were to individuals for small businesses, but for which personal income was used in the decisioning process.

| <b>Table 2 - Borrower Distribution of Residential Real Estate Loans in the non-MSA AA</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 |
| Home Mortgage Loans                                                                       | 30.23            | 0.00                 | 17.55            | 19.23                | 18.12            | 23.08                | 34.11            | 57.69                |

| <b>Table 2A - Borrower Distribution of Consumer Loans in the non-MSA AA</b> |                    |                      |                    |                      |                    |                      |                    |                      |
|-----------------------------------------------------------------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Borrower Income Level                                                       | Low                |                      | Moderate           |                      | Middle             |                      | Upper              |                      |
| Loan Type                                                                   | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer Loans                                                              | 33.79              | 33.33                | 15.96              | 0.00                 | 16.31              | 16.67                | 33.94              | 50.00                |

| <b>Table 2B - Borrower Distribution of Loans to Businesses in the non-MSA AA</b> |              |              |                         |        |
|----------------------------------------------------------------------------------|--------------|--------------|-------------------------|--------|
| Business Revenues (or Sales)                                                     | ≤\$1,000,000 | >\$1,000,000 | Unavailable/<br>Unknown | Total  |
| % of AA Businesses                                                               | 59.08        | 4.13         | 36.79                   | 100.00 |
| % of Bank Loans in AA by #                                                       | 31.37        | 50.98        | 17.65                   | 100.00 |
| % of Bank Loans in AA by \$                                                      | 36.96        | 25.49        | 37.55                   | 100.00 |

| <b>Table 2C - Borrower Distribution of Loans to Businesses by Loan Size in the non-MSA AA</b> |                 |                   |                               |                          |
|-----------------------------------------------------------------------------------------------|-----------------|-------------------|-------------------------------|--------------------------|
| Loan Size (000's)                                                                             | Number of Loans | Percent of Number | Dollar Volume of Loans (000s) | Percent of Dollar Volume |
| \$0 - \$100,000                                                                               | 41              | 80.40             | 1,460                         | 31.79                    |
| \$100,001 - \$250,000                                                                         | 5               | 9.80              | 758                           | 16.29                    |
| \$250,001 - \$1,000,000                                                                       | 5               | 9.80              | 2,384                         | 51.92                    |

### **Geographic Distribution of Loans**

The geographic distribution of loans reflects reasonable dispersion throughout the AAs. The distribution of home mortgage, consumer, and business loans was reasonable. We identified no apparent gaps or areas of low penetration in the bank's lending patterns.

We considered that loans to businesses in moderate-income geographies would equate to 14% of total business loans sampled if loans to auto and mobile home dealers were treated in a traditional manner as two loans under master note agreements instead of 24 individual auto and mobile home loans.

| <b>Table 3 - Geographic Distribution of Home Mortgage Loans in the non-MSA AA</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 |
| Home Mortgage Loans                                                               | 0.00                           | 0.00                 | 34.45                          | 19.23                | 59.53                          | 80.77                | 6.01                           | 0.00                 |

| <b>Table 3A - Geographic Distribution of Consumer Loans in the non-MSA AA</b> |                    |                      |                    |                      |                    |                      |                    |                      |
|-------------------------------------------------------------------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level                                                     | Low                |                      | Moderate           |                      | Middle             |                      | Upper              |                      |
| Loan type                                                                     | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer Loans                                                                | 0.00               | 0.00                 | 34.16              | 16.00                | 59.57              | 84.00                | 6.27               | 0.00                 |

| <b>Table 3B - Geographic Distribution of Loans to Businesses in the non-MSA AA</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 |
| Business                                                                           | 0.00               | 0.00                 | 24.83              | 7.84                 | 60.65              | 88.24                | 10.92              | 3.92                 |

### **Responses to Complaints**

There were no complaints regarding the bank's CRA performance during the evaluation period.

### **Community Development Test**

The bank's community development performance demonstrates excellent responsiveness to community development needs in its AAs through community development loans, qualified investments and community development services, considering the bank's capacity and the need and availability of such opportunities for community development in the bank's AAs.

### **Number and amount of community development loans**

The bank made 21 community development loans totaling \$3.7 million during the evaluation period. Community development loans originated through CNCDF were included for purposes of this evaluation. Proceeds were used to finance affordable housing, business development in economically distressed areas, critical infrastructure in a distressed area, and to permit community development organizations to expand their services to low- and moderate-income persons and geographies.

### **Number and amount of qualified investments**

Community development investments equate to over 15 percent of the bank's Tier 1 Capital. The bank made 39 qualified investments and contributions totaling approximately \$4.2 million during the evaluation period. The bank also retained three investments totaling \$1.3 million from the prior evaluation period. Investments and contributions went to organizations that provide health, human services, and housing for low- and moderate-income individuals and geographies, and to organizations that offer technical support and credit programs for small business, small farms, and economic development in distressed geographies.

### **Extent to which the bank provides community development services**

During the evaluation period and across the bank's AAs, five officers and employees provided technical services and support to 14 qualified community development organizations. Bank employees gave branch tours and taught classes on credit and savings at 11 schools where over 50% of the student population are from low- and moderate-income families. CNB also sponsored a business symposium in March 2006 to bring attention to the opportunities and challenges small businesses in Eastern KY face. Approximately 350 civic and business leaders attended the event.

### **Bank's responsiveness through such activities to community development lending, investment, and services needs**

CNB is responsive to community development lending, service, and investment needs. In addition to services, investments and loans described earlier, the bank participates in four lending programs throughout their AA that provide assistance and financing for affordable housing. During the evaluation period, the bank originated 62 loans under these programs, totaling just under \$6 million.

### **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.