



PUBLIC DISCLOSURE

COMMUNITY REINVESTMENT ACT

PERFORMANCE EVALUATION

April 13, 1998

Citizens National Bank of Texas
Charter Number 17954

5320 Bellaire Boulevard
Bellaire, Texas 77401

Office of the Comptroller of the Currency
Southwestern District
1600 Lincoln Plaza, 500 North Akard
Dallas, Texas 75201-3394

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining a financial institution subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Citizens National Bank of Texas, Bellaire, Texas** prepared by the **Office of the Comptroller of the Currency**, the institution's primary supervisory agency, as of April 13, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

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

Citizens National Bank of Texas has a *satisfactory* record of meeting credit needs within the community, as evidenced by the following:

- A reasonable proportion of loan originations within the bank's assessment area;
- A reasonable distribution of loans originated to borrowers of different income levels and businesses of different sizes;
- A reasonable geographic distribution of loans within its assessment area; and,
- A loan-to-deposit ratio which meets the standards for satisfactory performance.

The following table summarizes the performance level of **Citizens National Bank of Texas, Bellaire, Texas** with respect to each of the five performance criteria.

| SMALL INSTITUTION ASSESSMENT CRITERIA | CITIZENS NATIONAL BANK OF TEXAS BELLAIRE, TEXAS PERFORMANCE LEVELS | | |
|--|---|--|--|
| | <u>Exceeds</u> Standards for Satisfactory Performance | <u>Meets</u> Standards for Satisfactory Performance | <u>Does not meet</u> Standards for Satisfactory Performance |
| Loan to Deposit Ratio | | X | |
| Lending in Assessment Area | | X | |
| Lending to Borrowers of Different Incomes and to Businesses of Different sizes | | X | |
| Geographic Distribution of Loans | | X | |
| Response to Complaints | No complaints have been received by the bank since the prior CRA examination. | | |

PERFORMANCE CONTEXT

Assessment Area

Citizens National Bank of Texas has elected Harris and Fort Bend Counties of Texas as its assessment area for Community Reinvestment Act (CRA) purposes. This is the area in which the bank's efforts are to be judged. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income census tracts.

These two counties contain a total of 631 census tracts, as determined by the U.S. Census Bureau, and according to 1996 estimates, are home to close to four million people. The chart below displays income characteristics of the census tracts comprising the assessment area. Tracts are characterized based upon a percentage of the Median Family Income (MFI).

| Tract Characteristics | Count | % | Households | % |
|--|------------|-------------|------------------|-------------|
| Low Income (<i><50% of MFI</i>) | 74 | 12% | 88,469 | 8% |
| Moderate Income (<i>50%-80% of MFI</i>) | 183 | 29% | 285,938 | 26% |
| Middle Income (<i>80%-120% of MFI</i>) | 190 | 30% | 364,240 | 33% |
| Upper Income (<i>>120% of MFI</i>) | 170 | 27% | 359,686 | 33% |
| Tracts with unknown characteristics | 14 | 2% | 0 | 0% |
| Total | 631 | 100% | 1,098,333 | 100% |

Source: 1990 U.S. Census

The 1990 U.S. Census listed 13 percent of the local population as living at, or below, the poverty level. Twenty-eight percent of the populace receives at least some of its income from retirement or social security or some form of public assistance. The updated 1997 Median Family Income is \$49,100. Of the 1990 estimate of 1.25 million housing units in this assessment area, 64 percent are 1-4 family units. The average age of these structures is in excess of 25 years.

The City of Houston, which covers most of Harris County, continues to be dominated by the energy industry, although that dominance has waned in the last decade. Growth industries include the medical industry, residential and commercial real estate development, and financial services. The Port of Houston, one of the busiest in the nation, is rapidly becoming a focal point of trade between the United States, Mexico, Central and South America.

The bank's headquarters are in the City of Bellaire, a separately incorporated city surrounded by the City of Houston. Bellaire has become an enclave of older homes and new, upper-income construction. Many older, modest homes are purchased for the lots upon which they were constructed. The older homes are demolished and replaced by new homes, typically costing several hundred thousand dollars each. All the census tracts within the City of Bellaire are upper-income tracts, according to the U.S. Census Bureau. Adjoining this area to the west and northwest, however, are several moderate- and middle-income tracts.

In December 1995, the bank opened its first full-service, freestanding branch office. This office complements the existing branches in the Kroger supermarkets, located in First Colony, Stafford, and Sweetwater. The Sugar Land office is located in northeastern Fort Bend County, which is adjacent to Harris County and also part of the Houston Metropolitan Statistical Area (MSA). Fort Bend County was recently ranked as the second fastest growing county in Texas and the fourth fastest growing urban county in the United States. It has been predicted that Fort Bend County will have the sixth fastest rate of employment growth of any county in the United States from 1995 through 2000.

While opportunities abound, competition also thrives. The area is served by most of the larger financial institutions in the nation. Banks such as Chase, NationsBank, BankOne, Wells Fargo, Bank of America and Comerica have substantial retail and commercial operations in Houston. The bank primarily competes with forty-three state and federally chartered banks of a similar size (\$50 million in total assets to \$500 million in total assets) within the same assessment area. Competitors also include savings and loan associations, credit unions and finance companies, including captive finance companies affiliated with major retailers.

Institution Characteristics

Citizens National Bank of Texas has total assets of \$323 million as of the close of business, March 31, 1998. Net loans for the same period totaled \$105 million with total deposits of \$274 million. The bank, chartered in 1983, operates two full-service offices and three smaller branches in Kroger grocery stores. The two full-service offices are the bank's headquarters in Bellaire and its branch in Sugar Land, Texas. The bank also operates a detached drive-in facility, approximately one-half block east of its headquarters. Of the \$262 million in total deposits at year-end 1997, the bank attributes \$225 million to its main office in Bellaire.

As a full-service institution, the bank offers an array of lending and deposit services to its customers. The primary businesses the bank desires are small business lending, commercial and residential real estate lending, and consumer lending. Management's objective is to seek a loan mix of approximately 50% consumer loans, 25% small business loans and 25% real estate loans. The following table shows the basic composition of the bank's balance sheet for the years ending as indicated. All amounts are in thousands of dollars.

| Balance Sheet Item | 12-31-95 | 12-31-96 | 12-31-97 |
|------------------------------|-----------------|-----------------|-----------------|
| Real Estate Loans | \$21,581 | \$33,868 | \$39,655 |
| Commercial Loans | 17,784 | 22,424 | 24,753 |
| Consumer Loans | 30,875 | 38,207 | 41,116 |
| Investment Securities | 148,482 | 149,740 | 173,008 |
| Total Assets | 231,914 | 258,419 | 296,766 |
| Core Deposits | 188,330 | 208,933 | 230,905 |
| Total Deposits | 209,072 | 238,327 | 262,078 |
| Capital | 16,921 | 17,872 | 31,647 |
| Net Income | 2,872 | 3,161 | 3,698 |

Source: Reports of Condition and Income for dates indicated.

The last CRA Public Evaluation was dated June 30, 1995, in which a “Satisfactory” rating was assigned. The bank is not a member of a multibank holding company or any chain-bank group. No legal, financial, or other factors impede the bank’s ability to help meet the credit needs in its assessment area.

SMALL INSTITUTION ASSESSMENT CRITERIA

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio meets the standards for satisfactory performance. For the twelve calendar quarters ending March 31, 1998, the bank's ratio of net loans to total deposits has averaged 36%. As of March 31, 1998, this ratio was 38%. For a group of similarly situated banks (those with total assets of \$50 million to \$500 million domiciled in Citizens NB's assessment area), the median loan-to-deposit ratio at the same date is 59%. This numerical disparity is due, in large part, to the particular circumstances of the bank's depositors, to the markets traditionally served, and the products and services offered.

Historically, Citizens National Bank of Texas has been a consumer lender. As of March 31, 1998, the bank had more than three thousand consumer loans on the books. These are typically small, and relatively short-lived loans. Even the commercial business of the bank, to-date, has focused on smaller loans. As of December 31, 1997, the largest outstanding commercial loan was approximately \$2.5 million, despite a legal lending limit for the bank of \$4.7 million. Indeed, the twenty largest commercial loans average only \$792 thousand each. As noted in the discussion below of loan growth in the Sugar Land office, commercial lending has grown noticeably since the opening of that office.

In 1989, in an effort to attract more business from the large and relatively affluent community of older citizens in, and around, the Bellaire community, the bank founded its Leisure Club. This has proved to be a very successful marketing tool. As of year end 1997, the bank reports that 39% of their total deposits of \$262 million are tied to the more than 5,000 Leisure Club members.

However, this portion of the bank's depositor base has not proved to be an active loan market. This has compelled the bank to seek outlets for lending activity beyond the bank's own depositor base. To a considerable extent, the bank has been successful in doing this by opening branches in new parts of its assessment area. As of September 30, 1997, almost 25% of loan originations came from the Sugar Land and Stafford offices. By contrast, though, these offices account for only about 13 percent of the bank's deposits. Additionally, for the two-year period ending August 11, 1997, the loan growth rate was substantially in excess of the deposit growth rate for most of the bank's offices in Fort Bend County.

The bank has also compensated by generating mortgage loans through its wholly-owned subsidiary, CNB Mortgage. Located on the second floor of the bank's headquarters, the mortgage company generated 87 mortgage loans totaling \$11.5 million in 1997. Nineteen of these borrowers also were extended interim/construction loans. In addition to the permanent loans arranged by the mortgage company, the bank originated 42 home construction loans totaling \$8.3 million. These loans were to builders who subsequently sold the homes or they

were made to owners who subsequently obtained permanent mortgages elsewhere. Together, these activities represent 129 home loans totaling \$19.8 million. Noteworthy of this activity, though, is that the loans generated by CNB Mortgage do not appear on the bank's books. Neither are they chronicled in the bank's reports under the Home Mortgage Disclosure Act (HMDA). All such loans are closed into the name of independent, third party permanent lenders. Similarly, the interim construction loans stayed on the bank's books only a short time and, like the mortgage company loans, do not appear on the bank's HMDA Loan Application Register.

Lending in Assessment Area

The bank's lending in its assessment area meets the standards for satisfactory performance. Of the 176 loans the bank originated in 1997, which were reportable under HMDA, 153, or 87 percent, were originated within the bank's assessment area. Additionally, analysis prepared by an outside consultant indicated the bank originated a total of 2,524 loans of all types for the nine months ending September 30, 1997. Of these, 79 percent of the number and 71 percent of the dollar amount originated within the assessment area.

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

The bank's lending to borrowers of different incomes and to businesses of different sizes meets the standard for satisfactory performance. The table on the next page is constructed from the Home Mortgage Disclosure Act Statements submitted by the bank for the years ending December 31, 1995, 1996, and 1997. It reflects a total of 523 home loan applications received and 469 home loans approved and originated during the three-year period. Applicant income levels are grouped by their respective percentage relationship to the Median Family Income of the Houston Metropolitan Statistical Area. The table illustrates that the lending patterns of the bank, with respect to individual borrowers, parallel the income patterns of the assessment area. Please refer, also, to the table on page four, which displays the characteristics of the census tracts within the bank's assessment area.

| <i>Applicant Income Level</i> | <i>Applications Received</i> | <i>Percent of Total Applications</i> | <i>Applications Approved</i> | <i>Percent of Total Approvals</i> |
|-------------------------------|------------------------------|--------------------------------------|------------------------------|-----------------------------------|
| <i>49% MFI, or less</i> | 59 | 11 | 52 | 11 |
| <i>50% to 79% MFI</i> | 102 | 20 | 91 | 19 |
| <i>80% to 119% MFI</i> | 106 | 20 | 94 | 20 |
| <i>120% MFI, or more</i> | 239 | 46 | 218 | 47 |
| <i>Income Not Available</i> | 17 | 3 | 14 | 3 |
| <i>Total</i> | 523 | 100 | 469 | 100 |

The table indicates that the bank received 31 percent of its home loan applications from applicants whose income was 80 percent, or less, of the Median Family Income. Approvals from this group represented 30 percent of all approvals. The chart on page four shows that the bank’s assessment area contains 257 census tracts that are considered low- to moderate-income. These tracts represent 41 percent of all tracts in the area and contain 34 percent of all households in the assessment area.

Beginning in 1998, Citizens National Bank of Texas is subject to the record keeping requirements of the CRA regulations pertinent to large banks. This will provide a data base for future periods containing the revenue levels of business loan applicants. For the present, however, surrogate measures must be employed. One of the best indicators is loan size at origination. Data compiled by the independent consultant indicates the vast majority of the bank’s commercial loans are to small businesses. For the period reviewed, the nine months ending September 30, 1997, the bank originated 335 loans in its assessment area to borrowers other than individuals. The average size of such loans was \$36 thousand. Of all the 1,991 loans the bank originated during this period within its assessment area, 56 percent were in amounts of less than \$10 thousand. Another 39 percent were in amounts of \$10 thousand to \$50 thousand. Only 5 percent of the loans were in amounts greater than \$50 thousand and only 2 percent were greater than \$150 thousand. As noted previously, the twenty largest loans in the bank averaged only \$772 thousand each, despite a legal lending limit of \$4.7 million.

Geographic Distribution of Loans

The bank’s geographic distribution of loans meets the standards for satisfactory performance. Loan applications, approvals and denials are all clustered about the two primary offices, Bellaire and Sugar Land. As the distance from these offices increases, the concentrations of both loan and deposit activity decrease. In the case of Sugar Land, however, the presence of the retail branches in the local grocery stores gives a broader dispersion to both loans and deposits.

A report, prepared by the bank as of August 11, 1997, provides dollar totals and numbers of accounts, for both deposits and loans, by postal *ZIP* code. While *ZIP* code sectors are not as precise as Census Tracts, they do provide valuable insight as to those geographies from which the bank draws its deposits and the areas into which it extends credit. As mentioned in the discussion of the Performance Context, the bank's main office is located in an affluent community consisting solely of upper-income tracts. Deposit accounts tend to be larger and loans fewer in number. Management's representations about the difficulty lending to a demographic group heavily influenced by retirement age economic considerations, seem to be substantiated. Loan-to-deposit ratios seem to increase as the distance from Bellaire increases. Conversely, the offices of the bank in and around Sugar Land appear to better utilize local deposit funding. Loan-to-deposit ratios in the Sugar Land, Stafford and Missouri City areas tend to be higher than those surrounding the bank's headquarters.

A review of the HMDA data for the three-year period ending December 31, 1997, indicates that the bank extended 15.4 percent of its home mortgage loans into low- to moderate-income tracts. Such tracts represent 41 percent of the bank's assessment area. Lending into middle-income tracts accounted for 27.3 percent of the bank's lending activity while representing 30 percent of the assessment area. However, again with reference to the previous discussion of Performance Context, this is hardly unexpected. When overlaid upon the demographics of the areas surrounding the bank's offices, and when viewed within the context of those areas from which the bank receives the majority of its deposits, such dispersion is reasonable.

Response to Complaints

No complaints have been received by the bank regarding its performance under CRA since the previous CRA evaluation. Management of the bank has the ability to respond effectively should such complaints arise.

Compliance With Antidiscrimination Laws

A review of the bank's compliance with laws and regulations regarding Fair Lending was conducted concurrent with this CRA evaluation. The bank's compliance with the Equal Credit Opportunity Act, the Fair Housing Act and the Home Mortgage Disclosure Act were reviewed. No violations were noted. No instances were noted in which credit decisions were influenced by prohibitive factors. No practices were noted which would encourage unlawful discrimination in the lending process.