



SMALL BANK

**Comptroller of the Currency
Administrator of National Banks**

PUBLIC DISCLOSURE

December 2, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Citizens National Bank at Brownwood
Charter Number 14273**

**One Carnegie Street
Brownwood, TX 76801**

**Comptroller of the Currency
ADC - Austin
8310 Capital of Texas Highway North Suite 250
Austin, TX 78731**

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.

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

- Citizens National Bank's (CNB) lending performance is satisfactory given its size, financial condition, and the known credit needs in its assessment area (AA).
- CNB's loan-to-deposit (LTD) ratio is good and has averaged 60% for this evaluation period.
- A substantial majority of CNB's loans are within its AA.
- CNB has demonstrated a satisfactory willingness to extend loans to individuals of varying incomes and businesses of different sizes.
- The geographic distribution of the bank's loans within the AA is reasonable.
- There have been no complaints with respect to CNB's CRA performance.

DESCRIPTION OF INSTITUTION

CNB is a 128 million (MM) bank headquartered in Brownwood, Texas, approximately 140 miles northwest of Austin, Texas.

CNB is 100% owned by Brownwood Bancshares, Inc. (BBI), a one-bank holding company located in Brownwood. BBI is 100% owned by Citizens Financial Corporation of Brownwood, Inc., also located in Brownwood. Total assets of BBI as of September 30, 2002 were 15.9MM.

This bank has one branch located at the Brownwood Super Wal-Mart, and also owns three automated teller machines (ATMs) located in its AA. A drive-in facility is provided at the motor bank adjacent to the main office.

The institution's principal focus is to promote economic development in its AA through its lending programs. CNB's primary lending products include residential, non-residential real estate, and various types of commercial and consumer loans. CNB also participates in government guaranteed small business and rural development loans, and originates a number of residential-related mortgage loans that are sold into the secondary mortgage market. Total loans as of September 30, 2002, amounted to 70.9MM, which represents 55% of total assets. The following table reflects a detailed breakdown of CNB's loan portfolio as of September 30, 2002.

Loan Type	Dollar Amount (000's)	% of Total Loans
Real Estate (RE) Construction	4,157	5.9
RE Farmland	5,610	7.9
RE Residential (1-4)	9,900	14.0
RE Multifamily Residential	178	0.2
RE Nonfarm Nonresidential	19,023	26.8
Agricultural Production	4,714	6.6
Commercial and Industrial	12,588	17.8
Consumer	8,381	11.8
States and Political Subdivisions	6,207	8.8
Other	136	0.2
Total	70,894	100

Complete banking services are provided Monday through Friday at both offices as well as extended services on Saturday at the drive-through facility and the Wal-Mart branch. Holiday banking services are also provided at the Wal-Mart Branch. CNB has a 24-hour telephone audio response system, which allows customers to obtain account balance information, transfer funds between accounts, and make loan payments. This institution also has an Internet web site (www.cnb-brownwood.com), which provides information concerning the bank's services and allows customers to obtain deposit account information, transfer funds between accounts, and bill paying. Customers can also e-mail CNB (cnb@web-access.net) concerning account inquires and other account concerns.

CNB faces strong competition from area banks, savings and loans, and investment brokerage firms. Based on its financial condition, the local economy, product offerings, competition, and prior performance, CNB has the ability to meet the credit needs in its community. At the last CRA examination in February 1998, CNB's CRA rating was "Satisfactory." No legal impediments or other factors hinder the bank's ability to provide credit in its AA.

DESCRIPTION OF BROWN COUNTY

CNB has designated Brown County as its AA. This area includes the city of Brownwood and smaller cities or communities such as Bangs, Blanket, Brookesmith, Early, May, and Zephyr. This area is made up of 11 block-numbering areas (BNAs), which surround and include each banking office. Specific demographic and economic data for this area is listed in the table on the following page.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	9,408
Number of Households	13,107
<i>Geographies</i>	
Number of BNAs	11
% Low-Income BNAs	9
% Moderate-Income BNAs	27
% Middle-Income BNAs	55
% Upper-Income BNAs	9
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	24,368
2001 HUD-Adjusted MFI	35,800
2002 HUD-Adjusted MFI	36,100
<i>Economic Indicators</i>	
Unemployment Rate	3.53
2001 Median Housing Value	36,340
% of Households Below Poverty Level	21.51

This area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income (LMI) geographies. A further description of the AA is presented below.

According to the 1990 housing data as provided in the census, there are 17M housing units in Brown County of which 56% are owner occupied, 22% are renter occupied, and 22% are vacant. The median year built for housing was 1966, with a median value of 36M.

Based on 1990 Census data, the AA has a combined population of 34M. Approximately 23% of the families in the AA are considered low-income. Moderate-income families approximate 17% of the population, while middle- and upper-income families comprise the remaining 60%. The local economy is considered good with an unemployment rate of 3.53%. Primary industries within Brown County include light manufacturing, retail trade, services, and agricultural livestock operations. Major commercial employers include the Kohler Company, the 3-M Company, Brownwood Independent School District, and Brownwood Regional Medical Center. Income data from the 1990 census revealed that the median family income for this area is 24M. Updated 2002 information indicates that the median family income has increased to 36M.

In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted two community leaders during this examination. The contacts were the Mayor of the City of Brownwood and a representative of the Brownwood Housing Authority. These contacts stressed the need for affordable housing and rental properties for LMI families within the AA. The contacts further stated that economic conditions were stable and that CNB is active in the community and responsive to credit needs in Brown County.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Management is performing satisfactorily and has been successful in meeting the credit needs of its AA, including LMI individuals, consistent with its resources and capabilities.

Loan-to-Deposit Ratio

CNB's LTD ratio is good given its asset size, financial condition, loan growth since our last evaluation, and lending opportunities within its AA. Since the last CRA examination, the LTD ratio has increased slowly from 55% on December 31, 1997, to 63% on September 30, 2002. The average LTD ratio over the past 19 quarters was 60%, which reflects an increase from an average 49% during the previous examination. The bank has a mortgage-banking department, which originates an array of mortgage-related residential loans that are eventually sold into the secondary market. Many of these loans are sold to permanent investors within a few days after origination. Since the last evaluation, the annual volume of mortgage-related loans sold into the secondary market averaged 5.5MM. Had these loans remained on the bank's books, the LTD ratio would have been higher.

The asset size and LTD ratio for CNB and four competing banks during this period are listed below.

Institution	Assets as of 09/30/02(*)	Average LTD Ratio % (**)
Texas Bank	131,000	76.46
Mills County Bank	116,000	61.85
Comanche NB	112,000	42.30
People's NB	101,000	55.74
<i>Citizens NB</i>	<i>128,000</i>	<i>60.09</i>

* Asset sizes of institutions are in thousands (000's)

** The average LTD ratio for the four comparable banks is for the period from December 1998 through June 2002. CNB's ratio is through September 30, 2002.

Lending in Assessment Area

A substantial majority of the bank's loans were made within its AA. In order to assess performance for these criteria, we reviewed a sample of 30 commercial, 30 consumer, and 30 residential loans originated during 1999 through September 2002. Our analysis determined that 100% of the number and 100% of the dollar amount of consumer loans were made within the AA. We further determined that 80% of the number and 60% of the dollar amount of residential real estate loans were made within the bank's AA. Finally, we determined that 87% of the number and 91% of the dollar amount of commercial loans were made within the AA.

TOTAL LOANS REVIEWED								
LOAN TYPE	In Assessment Area				Out Of Assessment Area			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer	30	100	237	100	0	0	0	0
Real Estate	24	80	800	60	6	20	523	40
Commercial	26	87	2,194	91	4	13	226	9
Total Reviewed	80	89	3,231	81	10	11	749	19

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

The loan portfolio reflects a satisfactory distribution of residential, consumer, and commercial loans among individuals of various income levels and businesses of different sizes within the AA. Our analysis included a sample of 23 residential, 20 consumer, and 20 commercial loans originated during the period of 1999 through September 2002.

Our analysis reflects good consumer loan penetration to LMI area households. However, the bank's penetration of residential loans to low-income households is below family demographics within this area. Based on the 1990 Census, 23% of AA families are low-income. Our review determined that only 13% of residential loans originated were made to low-income families. According to management, there are very few homes available in the AA at selling prices that LMI families could qualify for. Homes that are affordable for these families usually tend to be uninhabitable or in poor condition. The bank, however, has been successful in meeting moderate-income family residential real estate loan demands.

The following charts reflect the results of our sample of residential and consumer loans originated in CNB's AA.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	23.4		17.3		19.2		40.1	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	13.0	4.9	26.1	19.2	17.4	13.7	43.5	62.2

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	26		16.8		16.8		40.4	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	20.0	6.2	30.0	30.3	25.0	16.6	25.0	46.9

CNB originates a satisfactory number of commercial (non-agricultural) loans, the vast majority of

which have been made to “small businesses with revenues less than 1MM.” Management continues to focus on providing loans that will enhance the local economy. The following chart reflects our analysis of a sample of 20 commercial loans made from 1999 through September 2002.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	94	6
% of Bank Loans in AA #	80	20
% of Bank Loans in AA \$	83	17

Geographic Distribution of Loans

The geographic distribution of CNB’s loans within the AA is reasonable and in line with area demographics. Our analysis included 23 residential, 20 consumer, and 26 commercial loans originated since the last evaluation.

The tables on this and the following page reflect the results of our geographic distribution test for residential, consumer, and commercial loans.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	3.1		19.3		66.2		11.4	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	4.3	1.9	13.0	7.4	69.6	76.4	13.0	14.3

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	4.6		21.4		63.2		10.8	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	5.0	2.4	25.0	13.4	55.0	40.0	15.0	44.1

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	22.2		18.3		47.6		11.9	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	23.1	27.9	15.4	17.3	38.5	29.6	23.1	25.2

Responses to Complaints

CNB has received no complaints relating to its CRA performance.

Fair Lending Review

An analysis of non-business-related loans, public file comments, and consumer complaint information was performed in previous periods, in accordance with the OCC's risk-based fair lending examination standards. Those examinations revealed no basis for the OCC to conduct a comprehensive fair lending examination in connection with this CRA evaluation.