



SMALL BANK

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

PUBLIC DISCLOSURE

January 02, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

**1 Carnegie
Brownwood, TX 76801**

**Office of the Comptroller of the Currency
San Antonio - North Field Office
10101 Reunion Place Boulevard, Suite 402
San Antonio, TX 78216**

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 the 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 CRA RATING: This institution is rated “Satisfactory.”

- Lending performance for Citizens National Bank (CNB) is satisfactory given its size, financial condition, and the known credit needs in its assessment area (AA).
- CNB’s loan-to-deposit ratio is reasonable and averaged 68% 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 good.
- There have been no complaints with respect to CNB’s CRA performance.

DESCRIPTION OF INSTITUTION

CNB is a \$158 million bank headquartered in Brownwood, Texas, which is located approximately 140 miles northwest of Austin, Texas. CNB is 100% owned by Brownwood Bancshares, Inc. (BBI), a one-bank holding company. BBI is 100% owned by Citizens Financial Corporation of Brownwood, Inc., also located in Brownwood.

This bank has one branch located at the Brownwood Super Wal-Mart, and also owns four 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. 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 mortgage loans that are sold into the secondary mortgage market. Total loans as of September 30, 2006, amounted to \$103.5 million, which represents 66% of total assets. The following table details the bank’s loan mix.

Loan Category	\$ (000)	%
Commercial Real Estate Loans	38,801	37
Commercial Loans	32,303	31
Agricultural Loans	10,884	11
Residential Real Estate Loans	15,194	15
Consumer Loans	6,309	6
Total	103,491	100%

Source: Report of Condition

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 September 2002, 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 communities such as Bangs, Blanket, and May and is made up of 12 tracts, which surround and include each bank office. This is the same area designated in the previous examination.

According to the housing data as provided in the 2000 Census, there are approximately 18 thousand housing units in Brown County, of which 58% are owner-occupied, 22% are renter-occupied and 20% are vacant. The median year built for housing is 1970, with a median value of \$48.2 thousand. Specific demographic and economic data for this area is listed in the following table.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	10,082
Number of Households	14,344
Geographies	
Number of Census Tracts/Block Numbering Area (BNA)	12
% Low-Income Census Tracts/BNA	0.00
% Moderate-Income Census Tracts/BNA	17
% Middle-Income Census Tracts/BNA	75
% Upper-Income Census Tracts/BNA	8
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	38,361
2006 HUD-Adjusted MFI	43,100
Economic Indicators	
Unemployment Rate	3
2006 Median Housing Value	48,164
% of Households Below Poverty Level	18

Source: 2000 Census Data

Based on 2000 Census data, the AA has a combined population of 38,000. Approximately 21% of

the families in the AA are considered low-income. Moderate-income families approximate 16% of the population, while middle- and upper-income families comprise the remaining 63%. The local economy is considered good with an unemployment rate of 3.1%. 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, Superior Cable, Brownwood Independent School District, and Brownwood Regional Medical Center. Income data from the 2000 Census revealed that the median family income for this area is \$38.4 thousand. Updated 2002 information indicates that the median family income has increased to \$43.1 thousand.

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 Executive Director of the Brownwood Economic Development Corporation and a representative of the Chamber of Commerce. Both contacts stressed the need for affordable housing and small business lending within the AA. The contacts further stated that economic conditions were good 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 low- and moderate-income individuals, consistent with its resources and capabilities.

Loan-to-Deposit Ratio

CNB's loan-to-deposit ratio is good given its asset size, financial condition, and loan growth since our last evaluation, and lending opportunities within the AA. Since the last CRA examination, the loan-to-deposit ratio has increased slowly from 63% on September 30, 2002, to 74% on September 30, 2006. The average loan-to-deposit ratio over the past 17 quarters was 68%, which reflects an increase from an average 60% during the previous examination.

Institution	Assets As of 09/30/2006	Average LTD Ratio
First Coleman National Bank	56,305	104
The First National Bank of Baird	168,290	88
Texas Bank	200,746	85
<i>Citizens National Bank</i>	<i>158,406</i>	<i>68</i>
Mills County State Bank	155,483	64
The Comanche National Bank	116,170	45

Source: Uniform Bank Performance Report

The bank also 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 \$5.4 million. Had these loans remained on the bank's books, the loan-to-deposit ratio would have been much higher. Adding these loans back, the bank has an average loan to deposit ratio of 88%.

Lending in Assessment Area

A substantial majority of the bank's loans were made within the AA. In order to assess performance for these criteria, we reviewed a sample of 41 commercial, 21 consumer, and 21 residential loans originated during 2003 through September 2006. Our analysis determined that 98% of the number and 86% of the dollar amount of commercial loans were made within the AA. We further determined that 95% of the number and 96% of the dollar amount of consumer loans were made within the bank's AA. Finally, we determined that 95% of the number and 79% of the dollar amount of residential loans were made within the AA. For all loans reviewed, 96% of the number and 86% of the dollar amount of all loans were made within the AA.

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOANS BY YEAR	#	%	\$ (000s)	%	#	%	\$ (000s)	%
2003	17	94	1,149	99	1	6	15	1
2004	23	96	2,345	68	1	4	1,100	32
2005	20	100	2,331	100	0	0	0	0
2006	20	95	2,454	90	1	5	261	10
Total	80	96	8,279	86	3	4	1,376	14

Source: 2000 Census Data

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

Our analysis reflects good residential real estate loan penetration to low- and moderate-income households. However, CNB's penetration of consumer loans to low-income households is misaligned with area demographics. Based on the 1990 Census data, 26% of households in the AA are low-income. Our review determined that only 15% of consumer loans originated were made to low-income families. This can be partially explained by competition from four small loan companies in the area. These businesses cater to low- and moderate-income individuals that need small loans or payday advances. The bank has been very successful in meeting moderate-income household demands.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	21		16		21		42	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2003	25	17	25	23	25	24	25	36
2004	14	8	14	15	29	28	43	49
2005	25	21	25	21	50	58	0	0
2006	17	10	0	0	33	26	50	64
Total	20	13	15	14	35	33	30	40

Source: 2000 Census Data

CONSUMER								
<i>Borrower Income Level</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Households</i>	25		14		18		43	
<i>LOANS BY YEAR</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>
2003	20	7	20	16	20	19	40	58
2004	0	0	33	25	33	25	33	50
2005	20	26	0	0	40	37	40	37
2006	25	5	0	0	50	19	25	76
Total	15	7	15	12	35	24	35	56

Source: 2000 Census Data

CNB originates a satisfactory number of commercial loans, the vast majority of which have been made to small businesses with revenues less than \$1 million. Our analysis determined that 80% of the number and 56% of the dollar amount of commercial loans were made to small businesses. Management continues to focus on providing loans that will enhance the local economy.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
<i>% of AA Businesses</i>	94	6
<i>% of Bank Loans #</i>	80	20
<i>% of Bank Loans \$</i>	56	44

Source: 2000 Census Data

Geographic Distribution of Loans

The geographic distribution of the bank's loans within the AA is reasonable and is in line with area demographics. Consumer and commercial loans were closely aligned with area demographics. The residential real estate sample contained small gaps. There were no loans in low- or moderate-income areas in our sample. However, there were no owner-occupied homes in low- income census tracts and only 7% of the owner-occupied homes were located in moderate-income census tracts. There are also only two moderate-income census tracts. One of those is located in downtown Brownwood where residential housing is minimal. The other moderate-income census tract is located in a rural area. Approximately 70% of housing in this area are rental properties.

CONSUMER								
<i>Census Tract Income Level</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Households</i>	0		10		84		6	
<i>LOANS BY YEAR</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>
2003	0	0	20	19	80	81	0	0
2004	0	0	17	6	83	94	0	0
2005	0	0	0	0	100	100	0	0
2006	0	0	0	0	75	94	25	6
Totals	0	0	10	6	85	92	5	2

Source: 2000 Census Data

BUSINESS LOANS								
<i>Census Tract Income Level</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Businesses</i>	0		28		66		6	
<i>LOANS BY YEAR</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>
2003	0	0	38	23	62	77	0	0
2004	0	0	20	7	80	93	0	0
2005	0	0	18	9	82	91	0	0
2006	0	0	36	27	64	73	0	0
Totals	0	0	28	16	72	84	0	0

Source: 2000 Census Data

RESIDENTIAL REAL ESTATE								
<i>Census Tract Income Level</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Owner Occupied</i>	0		7		85		8	
<i>LOANS BY YEAR</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>
2003	0	0	0	0	100	100	0	0
2004	0	0	0	0	86	93	14	7
2005	0	0	0	0	75	54	25	46
2006	0	0	0	0	100	100	0	0
Totals	0	0	0	0	90	87	10	13

Source: 2000 Census Data

Responses to Complaints

CNB has received no complaints relating to its CRA performance.

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.