

Public Disclosure

June 1, 1998

Community Reinvestment Act Performance Evaluation

**The Citizens National Bank
Charter #12594**

**182 Main Street
Putnam, CT 06260**

The Office of the Comptroller of the Currency

**150 Federal Street, Second Floor
Boston, MA 02110**

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 financial institutions 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 CRA performance of **The Citizens National Bank (CNB)** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **June 1, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating

This institution is rated *Satisfactory*. Primary factors supporting the bank's overall rating include:

- ▶ a reasonable loan-to-deposit ratio;
- ▶ a high percentage of loans originated within the assessment area; and
- ▶ responsive lending to borrowers of different incomes and to businesses of different sizes.

Table 1 indicates the performance level of **The Citizens National Bank** with respect to each of the five performance criteria.

Table 1

Small Institution Assessment Criteria	The Citizens National Bank Performance Levels		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet 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	NOT APPLICABLE		
Response to complaints	NOT APPLICABLE		

Description of Institution

CNB is a wholly-owned subsidiary of Citizens National Bancorp, a one bank holding company. CNB has its main office in Putnam, Connecticut. CNB operates four branches located in the northeast Connecticut towns of Thompson, Woodstock, Killingly, and Brooklyn. No branches have opened or closed since our last CRA examination.

CNB is a full service financial intermediary, principally engaged in attracting deposits and making loans to consumers and small businesses. As of March 31, 1998, CNB's total assets were \$114 million. The \$64 million loan portfolio represents 56% of total assets. Residential real estate loans account for the largest portion of the portfolio at 49%, commercial loans represent 48%, and consumer loans represent 3%.

There are no financial or legal impediments preventing CNB from meeting the credit needs of its community.

Description of Assessment Area

CNB's assessment area consists of select contiguous census tracts in Windham county located in rural, northeast Connecticut. The assessment area includes the towns of: Woodstock, Thompson, Eastford, Pomfret, Putnam, Killingly, Brooklyn, Hampton, Canterbury, and Plainfield. As detailed in Table 2 below, the assessment area contains two moderate-income census tracts and fourteen middle-income census tracts. Competition in the assessment area is moderate. CNB's primary competitors are the Savings Institute and Putnam Savings Bank. The Savings Institute has \$318 million in assets and Putnam Savings Bank has \$118 million in assets. There are numerous other competitors with branches located throughout CNB's assessment area.

A community contact was made with a local community development organization to gain a better understanding of the credit needs in the assessment area. According to our community contact, as well as bank management, the most significant credit needs in the assessment area are affordable housing and small business lending.

Economic recovery in the assessment area has occurred at a slower pace than that of the rest of the state. The unemployment rate in the assessment area is 4.0% which is comparable to that of the state. However, according to bank management and our community contact, many individuals in the area suffer from underemployment as a result of recent losses of skilled manufacturing jobs.

The weighted average of MSA/non-MSA updated median family income for the State of Connecticut is \$52,575. However, the weighted average of median family income in the assessment area is only \$39,366 which is 25% below the MSA/non-MSA state level. The assessment area's weighted average median housing cost, at \$126,140, is substantial in relation to the median income.

Table 2

Assessment Area Demographics			
Designation	# of Census Tracts	% of Total Census Tracts	% of Households Residing in the Census Tracts
Low	0	0%	0%
Moderate	2	12%	17%
Middle	14	88%	83%
Upper	0	0%	0%
Total	16	100%	100%

Source: 1990 census data, U.S. Bureau of the Census

Conclusions with Respect to Performance Criteria

Scope of Review

This review covered the assessment period from July 1, 1995 through March 31, 1998. Investments purchased and/or held and services performed over this time period were reviewed. Lending performance was assessed for all home mortgage loans, small business loans, and consumer loans from January 1, 1996, the effective date of the revised CRA regulation, through March 31, 1998.

CNB has systems that collect the location of the loan and the borrower's income for home mortgage and non-real estate consumer loan originations. Additionally, CNB data was used for commercial (business) loans to determine the location of the borrower's business. We tested this data to confirm its accuracy. We also reviewed a random sample of 62 business loans originated during the assessment period to evaluate CNB's performance with respect to lending to businesses of different sizes. The sample represented 20% of the 309 business loans originated in the assessment area during the assessment period. The results were representative of the bank's overall lending patterns.

Performance Criteria

Loan-to-Deposit Ratio

CNB's loan-to-deposit (LTD) ratio is reasonable. CNB's LTD ratio averaged 59.7% over the last eleven quarters; the median LTD ratio over that time period for Connecticut banks with total assets less than \$250 million was significantly higher at 74.3%. However, CNB's LTD ratio has exhibited a long-term increasing trend. As of March 31, 1998, CNB's LTD ratio was 67.0% which was only slightly below the median LTD ratio for Connecticut banks with total assets less than \$250 million which totaled 72.6%.

As detailed in Table 3 below, CNB's LTD ratio is also only moderately below the LTD ratios of

its most similar and direct competitors as of March 31, 1998.

Table 3

LTDs as of March 31, 1998 for CNB and Competitor Banks	
Bank	LTD Ratio as of March 31, 1998
Putnam Savings Bank	81.9%
Savings Institute	75.0%
The Citizens National Bank	67.0%

Source: Call Report

Additionally, CNB has sold approximately \$1 million in loans during the assessment period, these loans have benefitted the assessment area but are not represented in the LTD ratio.

Assessment Area Lending Concentration

Overall, CNB demonstrates a high level of lending within the assessment area. Analysis of CNB's originations during the assessment period indicates that 98%, 94%, and 96% of the number of home mortgage, small business, and consumer loans respectively, were originated inside the assessment area.

Table 4

Home Mortgage, Small Business, and Consumer Loan Originations within Assessment Area						
Loan Type	Sample: Inside Assessment Area (AA); Dollars are in 000s					
	# of Loans Originated Inside AA	Total # of Loans Originated	% of the # of Loans Originated Inside AA	\$ Amount of Loans Originated Inside AA	Total \$ Amount of Loans Originated	% of the \$ of Loans Originated Inside AA
Home Mortgage	253	257	98%	8,421	8,450	99%
Small Business/ Farm	309	328	94%	24,731	26,965	92%
Consumer	702	733	96%	9,774	10,047	97%

Source: CNB data

Borrower Characteristics

Home Mortgage Loans

CNB's overall lending to borrowers of different income levels for home mortgage loans is good. For the assessment period, 18% of the number and 8% of the dollar volume of home mortgages were made to low-income individuals. This is comparable to the assessment area demographics in that low-income families account for 19% of the total families in the assessment area.

For the assessment period, 23% of the number and 24% of the dollar amount of home mortgages were made to moderate-income individuals. Again this penetration is good as it slightly exceeds the level of moderate-income families in the assessment area (22%). Table 5 shows the number and dollar volume of home loans to borrowers of different income categories.

Table 5
Lending to Borrowers of Different Incomes

Borrower Characteristics of Home Mortgage Loans within Assessment Area					
Borrower Income Level	# of Loans	%	Dollar Amount (000s)	%	% of Families within each Income Category
Low	44	18%	650	8%	19%
Moderate	59	23%	2,014	24%	22%
Middle	73	29%	2,286	27%	28%
Upper	77	30%	3,472	41%	31%
Totals	253	100%	8,422	100%	100%

Source: CNB data

Consumer Loans

Although consumer lending is not a primary focus for CNB and does not represent a significant portion of the loan portfolio, CNB is very responsive to borrowers of different income levels for consumer loans. As detailed in table 6 below, 42% and 21% of the number of consumer loans were made to low- and moderate-income individuals respectively.

Table 6
Lending to Borrowers of Different Incomes

Borrower Characteristics of Consumer Loans within Assessment Area					
Borrower Income Level	# of Loans	%	Dollar Amount (000s)	%	% of Families within each Income Category
Low	293	42%	1,994	20%	19%
Moderate	145	21%	1,981	20%	22%
Middle	150	21%	2,705	28%	28%
Upper	114	16%	3,094	32%	31%
Totals	702	100%	9,774	100%	100%

Source: CNB data

Small Business Loans

As detailed in Table 7, 76% of the number of business loan originations were made to businesses with revenues less than \$1 million. This is comparable to the business demographics within the assessment area. Additionally, as detailed in Table 8, 60% of the number of originations had loan amounts less than \$250 thousand. Therefore, CNB has demonstrated a willingness to make credit available for micro-business borrowing needs.

Table 7
Lending to Businesses/Farms of Different Sizes

Distribution of Business/Farm Loans by Size within Assessment Area					
Business Revenue Size	# of Loans	%	Dollar Amount (000s)	%	% of Business within each Revenue Category
Less than \$1 Million	47	76%	1,945	31%	76%
Greater than \$1 Million	15	24%	4,255	69%	11%
Totals	62	100%	6,200	100%	87%**

Source: sample

** Revenue data was not available on 13% of the businesses in the assessment area.

Table 8
Distribution of Business/Farm Loans By Loan Size

Distribution of Small Business/Farm Loans by Loan Amount (at Origination) within Assessment Area				
Loan Amount	# of Loans	%	Dollar Amount of Loans (000s)	%
Less than or equal to \$100,000	21	45%	515	27%
Greater than or equal to \$100,000 and less than \$250,000	7	15%	410	21%
Greater than \$250,000	19	40%	1,020	52%
Totals	47	100%	1,945	100%

Source: sample

Geographic Distribution

An analysis of the geographic distribution of lending entails assessing the distribution of loans among the census tracts in the assessment area. Geographic distribution is analyzed to ensure that low- and moderate-income census tracts are receiving a reasonable penetration of loans. CNB's assessment area contains only two moderate-income census tracts and no low-income census tracts. Therefore, there is an insufficient number of low- and moderate-income census tracts in CNB's assessment area to perform a meaningful analysis of the geographic distribution of lending.

Community Development Lending, Qualified Investments and Community Development Services

During the assessment period, CNB has participated in community development in various ways. CNB was the lead bank of a consortium that provided \$139,000 to the Northeastern Connecticut Community Development Corporation (NCCDC) for financing of a multi-family housing unit. The loan was divided evenly among four local banks with CNB's portion totaling \$34,750. NCCDC's purpose is to provide affordable housing opportunities for low- and moderate-income families throughout the assessment area. This community development loan was not included in the sample of business loans we reviewed.

CNB made a \$500,000 investment in Federal Farm Credit bonds. Federal Farm Credit bonds provide funds to assist farmers with financing needs. Additionally, CNB made qualified community development donations totaling \$20,450 during the assessment period. CNB

permitted the Northern Connecticut Chamber of Commerce to utilize bank office space at no charge with an approximate benefit of \$19,800. Qualified donations in the amount of \$650 were made to the Thompson Ecumenical Empowerment Group, Inc. which is a non-profit community organization that provides human services to low-income families.

CNB is a full-service institution with banking locations easily accessible throughout the assessment area. CNB offers a full-range of products and has convenient banking hours. Additionally, CNB employees dedicate time, energy and financial understanding to various community development organizations. Most notably, senior CNB managers hold leadership positions in the Town of Putnam Redevelopment Agency and the NCCDC. The Town of Putnam Redevelopment Agency's primary purpose is to promote economic development to revitalize a moderate-income geography.

Response to Complaints

CNB did not receive any CRA-related consumer complaints since our last CRA examination. As a result, we did not evaluate responses to complaints.

Fair Lending Exam

A concurrent fair lending review did not identify any violations of anti-discrimination laws and regulations. An effective system is in place to comply with fair lending regulations.