



PUBLIC DISCLOSURE

October 01, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Citizens National Bank of Hillsboro
Charter Number 4900

200 E. Elm Street
Hillsboro, TX 76645

Office of the Comptroller of the Currency

225 East John Carpenter Freeway
Suite 500
Irving, TX 75062

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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

The Citizens National Bank of Hillsboro, Hillsboro, Texas (CNB or bank) has a Satisfactory record of meeting community credit needs. The major factors that support this rating include:

- The bank's loan-to-deposit (LTD) ratio is reasonable.
- A majority of loan originations and purchases are within the bank's assessment area (AA).
- CNB's distribution of residential loans to low- and moderate-income (LMI) borrowers is reasonable. Its distribution of loans to businesses of different sizes exhibits an excellent penetration. CNB's distribution of consumer loans to LMI borrowers is excellent.
- The bank's geographic distribution of residential and consumer loans to moderate-income census tracts reflects excellent dispersion. Its distribution of loans to businesses located in the moderate-income geographies is reasonable.

SCOPE OF EXAMINATION

An onsite examination of CNB was conducted to assess its performance under the CRA small bank performance criteria. This performance evaluation starts from the date of the bank's previous CRA examination, covering the period from March 23, 2009 to October 1, 2014.

We identified commercial and commercial real estate (CRE) loans, residential loans, and consumer loans as the bank's primary loan products. The loan data information used for the performance evaluation covered the period of January 1, 2012 through December 31, 2013. To evaluate CNB's performance, we used the population of loans that were originated during this timeframe. CNB purchased no loans during the evaluation period. CNB is not subject to the HMDA filing requirements. We sampled a limited number of loans in each loan category to ensure the reliability of the data. Relative to the distribution of commercial and CRE loans by borrower income, we selected a sample of 20 loans to evaluate CNB's performance.

DESCRIPTION OF INSTITUTION

CNB was chartered in 1893 and is 100 percent owned by Hillsboro Bancshares, Inc. whose sole subsidiary is the bank. CNB's total assets as of June 30, 2014 are \$201 million. The most recent CRA PE was March 23, 2009 at which a Satisfactory rating was assigned.

In addition to the main office, CNB operates one branch in Hillsboro. Each facility houses an automatic teller machine. The bank did not open or close any branches during the evaluation period. CNB offers a full range of deposit and loan products and services with a focus on commercial, residential, and consumer lending.

As of June 30, 2014, total loans of \$27.7 million were 13.78 percent of total assets. The following table reflects CNB's loan portfolio summary:

The Citizens National Bank of Hillsboro Loan Portfolio Summary		
Loan Category	Dollar Volume (in thousands)	Percentage of Dollars
Commercial Real Estate	9,432	34.09
1-4 Family Residential Real Estate	7,077	25.58
Consumer	4,372	15.80
Commercial	4,202	15.19
Agriculture, Construction and Other	2,585	9.34
Total	27,668	100.00

Source: June 30, 2014 Report of Condition.

CNB offers convenient banking hours and a variety of loan and deposit products to meet the needs of the AA. Both CNB offices are located in a moderate-income census tract. Telephone, online and mobile banking are also offered to ensure the accessibility of bank products and services.

There are no financial or legal impediments that would limit CNB's ability to help meet the credit needs in its AA.

DESCRIPTION OF ASSESSMENT AREA(S)

The AA includes all of Hill County that is comprised of 11 census tracts, including: two moderate-income tracts, six middle-income tracts and three upper-income tracts. Per the 2014 Federal Financial Institutions Examination Council (FFIEC) report, all of Hill County's middle-income census tracts are classified as distressed based on their poverty level.

The bank has properly defined its AA in accordance with the technical requirements of the CRA regulation. The AA consists of whole census tracts, does not arbitrarily exclude LMI census tracts, and includes the census tracts where the bank offices are located and the majority of its loans are originated. The AA meets requirements of the regulation, does not reflect illegal discrimination, and does not arbitrarily exclude any LMI geographies.

Hill County is primarily rural. The largest community and the county seat is the city of Hillsboro with a population of approximately 9,000 at the 2010 Census. The four largest employers are the Hillsboro Outlet Mall, Hillsboro ISD, the city of Hillsboro and Hill

College. Hill County is located almost midway between the Dallas-Fort Worth metroplex and Waco, Texas. It is also located near Lake Whitney, a popular tourist destination for Texas residents.

The following table provides a description of the AA based on 2010 and 2013 census data and U.S. Department of Housing and Urban Development information (HUD). Although the unemployment rate approximates that of the State of Texas, the percent of Hill County residents living below the federal poverty level is 17 percent and just under 40 percent of families are LMI. From 2010 to 2013 the population of Hill County declined by approximately one percent.

Demographic and Economic Characteristics of the Hill County AA	
<i>Population</i>	
Total Population	35,089
% Population Change 2010 to 2013	-0.8%
Number of Families	9,088
% LMI Families	38.01%
Number of Households	12,988
% Persons Over 65	17.75%
<i>Geographies</i>	
Number of Census Tracts	11
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	18.18%
% Middle-Income Census Tracts	54.55%
% Upper-Income Census Tracts	27.27%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$52,428
2010 HUD-Adjusted MFI	\$50,500
<i>Economic Indicators</i>	
Unemployment Rate	5.8%
% Households Receiving Social Security	37.56%
% Households Retired	19.24%
% Households Below Poverty Level	14.5%
% Persons Below Poverty Level	16.9%
2010 Median Housing Value	\$85,092

Source: 2010 and 2013 Census data and HUD updated income data.

We interviewed the *Economic Development Administrator of the Hillsboro Economic Development Corporation* to assess the credit needs of the community. This non-profit corporation has a mission to achieve sustained, balanced economic growth for the city of Hillsboro that will enhance the quality of life and provide greater access to desirable goods and services. The administrator indicated that the Hill County economy has been weak but is now growing and prospective employers are making inquiries regarding relocating their operations to the area. With new industrial projects possibly occurring as a result of business relocations, local businesses expanding their operation, and new businesses starting up, more 1-4 residential homes will likely be needed for employees and their families. The administrator believes opportunities will exist for bank financing

of residential construction in the near future. Our contact indicated that CNB and other financial institutions operating in Hill County strive to meet the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

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Loan-to-Deposit (LTD) Ratio

CNB's LTD ratio is reasonable given the bank's size, location, local competition, and the credit needs of the AA. This determination is based on the quarterly average LTD ratio of 21.6 percent from March 31, 2009 through June 30, 2014. During this evaluation period, CNB's LTD ratio ranged from a low of 19.2 percent to a high of 26.1 percent.

Management considers the banks shown in the following table to be similarly situated institutions (SSIs). All are community banks less than \$1 billion in assets that actively offer similar loan products and have branch locations in the AA.

The quarterly average LTD ratio for each SSI is listed in the following table. Please note that no ranking is intended or implied.

Loan-to-Deposit Ratios		
Financial Institutions	Total Assets \$ (000's) (As of 6/30/2014)	Average Loan-to- Deposit Ratio
Citizens State Bank	704,252	24.8%
The Citizens NB of Hillsboro	201,258	21.6%
First Security State Bank	108,681	39.3%
First Bank	50,076	17.2%

Source: Institution Reports of Condition from March 31, 2009 to June 30, 2014.

The level of the bank's average LTD ratio reflects a reasonable lending performance consistent with the weak economic demand within the AA. First Bank, with an LTD ratio of 17.2 percent, is the only SSI based in the AA.

Lending in Assessment Area

A majority of the number and dollar amount of CNB's loans were originated inside its AA. As depicted in Table 1 (\$000s omitted), 88.22 percent of the number and 78.75 percent of the dollar amount of loans were originated inside the AA.

Table 1 - Lending in Hill County AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	17	77.27	5	22.73	22	1,806	88.66	231	11.34	2,037
Home Improvement	21	95.45	1	4.55	22	1,024	94.03	65	5.97	1,089
Home Refinance	5	100.00	0	0.00	5	275	100.00	0	0.00	275
Business	82	88.17	11	11.83	93	8,114	73.24	2,964	26.76	11,078
Consumer	257	88.32	34	11.68	291	2,637	84.65	478	15.35	3,115
Total	382	88.22	51	11.78	433	13,856	78.75	3,738	21.25	17,594

Source: Bank data.

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

CNB’s distribution of residential loans to LMI borrowers is reasonable. Its distribution of loans to businesses of different sizes exhibits an excellent penetration. CNB’s distribution of consumer loans to LMI borrowers is excellent.

In our analysis, we included all 1-4 family real estate loans CNB originated in 2012 and 2013, 20 small business loans originated during the same period, and all consumer loans made in 2012 and 2013.

As detailed in Table 2, with the exception of the refinance loans, the bank’s 1-4 family real estate lending to moderate-income borrowers exceeds the percentage of families in those income levels. Although CNB’s home purchase lending to low-income borrowers is comparable to the percentage of families in those income levels, its home improvement and refinance lending is not. This is because many low-income borrowers cannot typically qualify for home improvement and refinance loans. Overall, CNB’s 1-4 family real estate lending reflects a reasonable level of distribution.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Hill County AA								
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 Purchase	19.66	17.65	18.35	29.41	17.64	23.53	44.34	29.41
Home Improvement	19.66	9.52	18.35	33.33	17.64	28.57	44.34	28.57
Home Refinance	19.66	0.00	18.35	0.00	17.64	20.00	44.34	80.00

Source: Bank data; U.S. Census data.

As illustrated in Table 2A, the percentage of loans by number to small businesses (85 percent) is excellent compared to the percentage of small businesses in the AA (70.16 percent). A small business is defined as a business with revenues of \$1 million or less. Similarly, the percentage by the dollar volume of loans (84.96 percent) was also well above the demographic.

Table 2A - Borrower Distribution of Loans to Businesses in Hill County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	70.16	2.55	27.29	100%
% of Bank Loans in AA by #	85.00	15.00	0.00	100%
% of Bank Loans in AA by \$	84.96	15.04	0.00	100%

Source: Loan sample; Dun and Bradstreet data.

As detailed in Table 2C, 89 percent of the number of loans to businesses originated by CNB were in amounts of \$100,000 or less. Loan size often loosely correlates to the size of the business.

Table 2C - Borrower Distribution of Loans to Businesses by Loan Size in Hill County AA				
Loan Size	Number of Loans	Percent of Number	Dollar Volume of Loans (000's)	Percent of Dollar Volume
\$0 - \$100,000	73	89.02	2,716	33.47
\$100,001 - \$250,000	4	4.90	580	7.15
\$250,001 - \$500,000	0	0.00	0	0.00
\$500,001 - \$1,000,000	4	4.90	3,118	38.43
Over \$1,000,000	1	0.01	1,700	20.95

Source: Bank data.

As shown in Table 2B, CNB's distribution of consumer loans among LMI borrowers is excellent. The percentage of the bank's loans to both the low- income and the moderate-income borrowers is higher than the percentage of households in the AA in those income categories.

Table 2B - Borrower Distribution of Consumer Loans in Hill County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	23.65	28.79	16.96	28.41	17.88	26.07	41.51	16.73

Source: Bank data; U.S. Census data.

Geographic Distribution of Loans

CNB’s geographic distribution of residential and consumer loans to moderate-income census tracts (the AA contains no low-income tracts) reflects excellent dispersion and demonstrates a pattern indicative of an institution seeking to service the credit needs of its AA. Its distribution of loans to businesses located in the moderate-income geographies is reasonable.

As depicted in Table 1, for the two-year period (2012 and 2013), CNB originated 43 1-4 family real estate loans in the AA. Of these residential loans, 17 were for purchases, 21 for improvements, and 5 for refinances. In Table 3, for each category, the percent of the bank’s residential loans compared to the percent of owner occupied housing in the moderate-income census tracts is excellent.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Hill County AA								
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 Purchase	0.00	0.00	7.69	23.53	56.24	35.29	36.07	41.18
Home Improvement	0.00	0.00	7.69	23.81	56.24	23.81	36.07	52.38
Home Refinance	0.00	0.00	7.69	40.00	56.24	20.00	36.07	40.00

Source: Bank data; U.S. Census data.

Table 3A compares the bank’s lending in the different income census tracts to the percent of businesses located in those geographies. The volume of CNB’s business loans in the moderate-income census tracts (9.76 percent of business loans) is reasonable compared to the percent of businesses in those tracts (13.25 percent).

Table 3A - Geographic Distribution of Loans to Businesses in Hill County AA								
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
Businesses	0.00	0.00	13.25	9.76	48.29	24.39	38.46	65.85

Source: Bank data; D & B data.

Table 3B illustrates the extent to which the bank’s lending in the moderate-income census tracts (19.46 percent of consumer loans) surpasses the percentage of households in the moderate-income geographies (10.36 percent). This is an excellent distribution of consumer loans to the moderate-income census tracts in the AA.

Table 3B - Geographic Distribution of Consumer Loans in Hill County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Household s	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0.00	0.00	10.36	19.46	53.17	33.46	36.47	47.08

Source: Bank data; U.S. Census data.

Responses to Complaints

CNB has not received any complaints regarding its CRA performance during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.