



PUBLIC DISCLOSURE

MARCH 26, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**CITIZENS BANK
RSSD# 468655**

**FOURTH AND MAIN
VELMA, OKLAHOMA 73491**

**Federal Reserve Bank of Kansas City
925 Grand Boulevard
Kansas City, Missouri 64198**

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**.*

The Citizens Bank (the bank) has a satisfactory record of helping to meet the credit needs of its entire assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources, operating philosophy, and credit needs of the community. Four of the five criteria used in evaluating small bank lending performance were relevant to this review and were as follows:

- Net Loan-to-Deposit (NLTD) Ratio
- Lending Inside the Assessment Area (AA)
- Lending to Individuals of Different Income Levels and to Businesses and Farms of Different Revenue Sizes
- Geographic Distribution of Loans

The bank's responsiveness to complaints under the Community Reinvestment Act (CRA), the fifth core criteria used to assess small bank performance, was not evaluated because the bank had not received any such complaints.

Conclusions about the four performance criteria were based on data compiled from a statistically-derived sample of loan files for each major product line. The major product lines were determined through discussions with bank management, a review of the Report of Condition and Income (Call Report), and a review of the number of loan originations since the bank's last CRA examination in February 2003. The three loan types selected for review were consumer motor vehicle, commercial, and agricultural loans.

The bank's average NLTD ratio indicated a reasonable effort to extend credit in a competitive lending market. In addition, a majority of the bank's lending activity occurred inside its AA. The bank's distribution of loans among consumers of different income levels and small businesses and small farms of different revenue sizes was reasonable. Also, the bank's geographic distribution of loans throughout its AA was considered satisfactory.

SCOPE OF EXAMINATION

The performance of the bank was assessed using the Federal Financial Institutions Examinations Council's (FFIEC) Examination Procedures for Small Institutions. The bank's performance was based on an analysis of its consumer motor vehicle, commercial, and agriculture loan originations between January 2, 2006 and December 29, 2006. The sample size consisted of 84 loans, of which 31 were motor vehicle, 27 were commercial, and 26 were agricultural loans. In addition, discussions about the local economic conditions were conducted with two community members to augment the analysis of the bank's lending performance. The community contacts were members of local businesses and supported information already obtained on local economic and business trends.

DESCRIPTION OF INSTITUTION

Citizens Bank, a full-service bank in Velma, Oklahoma, is located in a rural community of approximately 700 residents in Stephens County, Oklahoma. Although the bank's office at Fourth and Main Street was readily accessible to the entire community, the town has been geographically isolated, located approximately 20 miles southeast of Duncan on State Highway 7. The facility offers both drive-up teller windows and an automated teller machine (ATM). In addition, the bank has served the community with an additional cash-only dispensing ATM located at Speedy G's Convenience Store in Velma, Oklahoma.

The analysis of CRA performance identified no legal impediments to the bank's ability to lend. The bank has the ability to meet the credit needs of its AA based on its financial condition, size, and credit product offerings. According to the December 31, 2006 Call Report, the bank had reported assets totaled \$18.2 million, loans totaled \$13.4 million, and deposits totaled \$15.2 million. Table 1 indicates the distribution of the bank's loan portfolio by product type as of December 31, 2006.

TABLE 1 CITIZENS BANK LOAN PORTFOLIO		
Loan Type	Amount (\$000)	Percent of Total
Commercial	5,886	44.0
Agricultural	3,638	27.1
Real Estate	2,177	16.3
Consumer	1,675	12.5
Other	17	0.1
TOTAL Gross Loans	13,393	100.0

The bank's performance under the CRA was last evaluated at the February 24, 2003 examination at which time it also was assigned a satisfactory rating.

DESCRIPTION OF ASSESSMENT AREA

The bank defined its AA as Stephens County, which is located in south central Oklahoma, approximately 80 miles south of Oklahoma City. The bank's AA includes two moderate-, six middle-, and two upper-income census tracts, according to 2000 Census data. Both of the area's moderate-income geographies were in the city of Duncan, approximately 20 miles from the bank's office. A majority of area families and businesses, including the bank's office were in middle-income tracts.

Although the population of the AA increased by 2.1 percent from 42,299 in 1990 to 43,182 in 2000, the local population growth was well behind the state population growth rate of 9.7 percent for the same period. The population in Stephens County has been concentrated in

the city of Duncan, with a population of 22,505 per 2000 Census data and containing 52.1 percent of the area's population. The city of Duncan experienced slightly higher population growth of 3.6 percent from 1990 to 2000, while the town of Velma's population increased less than 1 percent during the same period. One of the community members interviewed stated that many of the younger residents have been moving to Duncan, where more employment opportunities exist (non-oil and gas related) and housing has been available. However, the area still contains an older population with 18.5 percent of its residents over 64 years old compared to 15.8 percent for rural Oklahoma, according to 2000 Census data.

Demographic information for the AA indicates that the condition of the area's economy was similar to other rural portions of Oklahoma. The median family income (MFI) was slightly higher at \$36,384 compared to the statewide nonmetropolitan MFI average of \$35,517. The number of families living below the poverty level in the AA was 11.63 percent, which was slightly lower than the other nonmetropolitan areas of the state at 13.21 percent. In addition, the AA's unemployment rate was higher at 6.51 percent compared to the nonmetropolitan area at 5.95 percent.

The bank had a small presence in the AA, with approximately \$15.9 million in deposits and a 2.12 percent market share of the Federal Deposit Insurance Corporation (FDIC)-insured deposits as of June 30, 2006. The bank ranked ninth among 10 FDIC-insured institutions operating in the AA.

Economic data indicated the area might need housing rehabilitation, given that the AA's median age of housing stock was 5 years older than other nonmetropolitan areas of the state. This potential need was also confirmed through discussions with members of the local community.

The AA's economy has been heavily dependent upon agriculture, and oil and gas exploration. The primary emphasis was wheat, dairy, and cattle production. Major employers in the area include Halliburton Energy (oilfield services), Atlas Pipeline Mid-Continent L.L.C. (gas services), Duncan Regional Hospital (healthcare), and Family Dollar Services, Inc. (distribution center). Numerous smaller manufacturing, service, and retail establishments also support the area's economy.

Table 2 summarizes the characteristics of the bank's AA based on 2000 Census and 2005 Dun and Bradstreet data.

TABLE 2
CITIZENS BANK ASSESSMENT AREA DEMOGRAPHICS

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	2,337	18.4
Moderate-income	2	20.0	2,529	19.8	521	20.6	2,360	18.6
Middle-income	6	60.0	7,544	59.4	817	10.8	2,731	21.5
Upper-income	2	20.0	2,638	20.8	140	5.3	5,283	41.5
Total Assessment Area	10	100.0	12,711	100.0	1,478	11.6	12,711	100.0
	Housing Units by Tract	Housing Tracts by Type						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Moderate-income	4,274	2,369	17.9	55.4	1,302	30.5	603	14.1
Middle-income	11,590	7,932	60.1	68.4	2,192	18.9	1,466	12.7
Upper-income	3,990	2,898	22.0	72.6	770	19.3	322	8.1
Total Assessment Area	19,854	13,199	100.0	66.5	4,264	21.5	2,391	12.0
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Moderate-income	256	16.2	233	16.4	18	15.7	5	10.0
Middle-income	979	61.7	868	61.1	74	64.3	37	74.0
Upper-income	350	22.1	319	22.5	23	20.0	8	16.0
Total Assessment Area	1,585	100.0	1,420	100.0	115	100.0	50	100.0
Percentage of Total Businesses:				89.6		7.3		3.2
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Moderate-income	1	1.7	1	1.7	0	0.0	0	0.0
Middle-income	52	86.6	52	86.6	0	0.0	0	0.0
Upper-income	7	11.7	7	11.7	0	0.0	0	0.0
Total Assessment Area	60	100.0	60	100.0	0	0.0	0	0.0
Percentage of Total Farms:				100.0		0.0		0.0

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's average NLTD ratio was considered reasonable in view of the bank's size, financial condition, and AA credit needs. Since the previous CRA examination, the bank's NLTD ratio averaged 80 percent. During that 16-quarter period, its NLTD ratios showed a slow upward

trend. The average NLTD for the last eight quarters compared higher, at 86 percent, than five out of six similarly situated peer banks including the state and national peer groups.

Summary of Lending Performance

TABLE 3 CITIZENS BANK'S LENDING PERFORMANCE								
Lending within the Assessment Area								
	Inside AA				Outside AA			
	#	%	\$(000)	%	#	%	\$(000)	%
Small Business	22	81.5	710	67.7	5	18.5	339	32.3
Small Farm	13	50.0	779	62.7	13	50.0	463	37.3
Motor Vehicle	21	67.7	152	67.8	10	32.3	72	32.2
TOTAL	56	66.7	1,641	65.2	28	33.3	874	34.8
Distribution by Income Level of Geographies								
	% of Bank Loans				% of Small Businesses/Farms			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Small Business	0.0	0.0	90.9	9.1	0.0	16.4	61.1	22.5
Small Farms	0.0	0.0	92.3	7.7	0.0	1.7	86.6	11.7
	% of Bank Loans				% of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Motor Vehicle	0.0	9.5	85.7	4.8	0.0	19.8	59.4	20.8
Distribution by Borrower Income Level and Revenue Size of Businesses and Farms								
	% of Bank Loans				% of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Motor Vehicle	19.0	47.6	23.8	9.6	18.4	18.6	21.5	41.5
	% of Bank Loans				% of Small Businesses			
	68.2				89.6			
	% of Bank Loans				% of Small Farms			
	92.3				100.0			

Lending in the Bank's Assessment Area

As indicated in Table 3, the majority of the bank's small business, small farm, and consumer loans were originated inside the AA. The bank's performance in this lending test was therefore considered satisfactory.

Geographic Distribution of Loans

The bank's distribution of loans among geographies of various income levels was compared to the percentages of small businesses and small farms located in each of the geographies. Similarly, the bank's distribution of consumer loans was compared to the percentage of families located in the geographies of various income levels. The sample of loans had no loans in the moderate-income census tracts for small businesses and small farms. The bank's level of lending for motor vehicle loans in the moderate-income tracts was lower than the percentage of families located in the tracts. Both moderate-income tracts were located in Duncan, Oklahoma. Discussions with community members indicated that Duncan has branches of at least seven banks in the area and it is approximately 20 miles away from the bank. Due to the distance of the moderate-income tracts and the strong competition from the banks in Duncan, the bank's performance was considered reasonable. See Table 3 for specific distribution levels.

Borrowers of Different Income Levels and Lending to Businesses and Farms of Different Revenue Sizes

Small Businesses and Small Farms:

The bank's level of lending to small businesses and small farms was considered reasonable. This lending test focuses on the bank's level of lending to businesses and farms with gross annual revenues less than \$1 million. On more than one-third of the bank's loans to businesses, revenue information was not collected. Therefore, the sampled number of loans to small businesses was considered not to be an accurate indicator of the real number of loans the bank has made to small businesses in the AA. Demographic data indicated that Duncan, Oklahoma, which is 20 miles from the bank's office, contains a larger number of the small businesses in the AA. As previously mentioned, the geographic distance and strong competition from other more conveniently located bank branches in Duncan may limit the bank's ability to originate small business loans within the AA. The bank's lending to small farms was similar to the percentage of small farms in the area. Table 3 illustrates the bank's lending to small businesses and small farms.

Motor Vehicles:

The bank's level of lending to borrower's of different income levels was considered very reasonable, as the percentage of motor vehicle loans to low- and moderate-income (LMI) families exceeds the percentage of families in the AA classified as LMI. Refer to Table 3 for specific information on the bank's distribution of lending to borrower's of various income levels.

Record of Responding to Complaints

The bank has not received any complaints about its performance in meeting the AA's credit needs. Therefore, the bank's performance in responding to complaints was not assessed.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank complied with the substantive provisions of the antidiscrimination laws and regulations. A review of bank policies, credit applications, loans, and interview procedures revealed no prohibited practices designed to discourage loan applicants. Further, the bank has not engaged in other illegal practices inconsistent with helping to meet community credit needs.

GLOSSARY OF COMMON CRA TERMS

(For additional information, please see the Definitions section of Regulation BB at 12 CFR 228.12.)

Assessment Area – The geographic area(s) delineated by the bank and used in evaluating the bank's record of helping to meet the credit needs of its community. The assessment area must include the geographies where the main office, branches, and deposit-taking automated tellers machines are located. The assessment area must consist only of whole geographies, may not reflect illegal discrimination, and may not arbitrarily exclude low- or moderate-income geographies.

Census Tracts – Census tracts are small, relatively permanent geographic entities within counties delineated by a committee of local data users. Census tracts are designed to be homogenous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons and average about 4,000 inhabitants.

Community Development – Includes affordable housing (including multifamily rental housing) for low- and moderate-income individuals; community services targeted to low- and moderate-income individuals; activities that promote economic development by financing businesses or farms that have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies, designated distressed or underserved nonmetropolitan middle-income areas or designated disaster areas.

Community Development Loan – A loan that has community development as its primary purpose and (except in the case of a wholesale or limited-purpose bank).

1. Has not been reported or collected by the bank or an affiliate as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan and
2. Benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

Community Development Service – A service that has as its primary purpose community development, is related to the provision of financial services, has not been considered in the evaluation of the bank's retail banking services, benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area and has not been claimed by other affiliated institutions.

Consumer Loans – Loans to individuals for household, family and other personal expenditures. These loans do not include real estate-secured loans.

Dun & Bradstreet Data – Data collected by Dun & Bradstreet regarding types of businesses and their respective gross annual revenues. The data can be sorted by geographies.

Geography – A census tract delineated by the U.S. Bureau of the Census in the most recent decennial census.

Income Level – Both geographies and individuals can be described in terms of their income levels. In MSAs, the level is based on the MSA median income. In nonMSA areas, the level is based on the statewide, nonMSA median income.

Low-Income – Less than 50 percent of the area median income

Moderate-Income – At least 50 percent and less than 80 percent of the area median income

Middle-Income – At least 80 percent and less than 120 percent of the area median income

Upper-Income – At least 120 percent or more of the area median income

Metropolitan Statistical Area (MSA) - The general concept of an MSA is that of a core area containing a large population nucleus, together with adjacent communities having a high degree of economic and social integration with that core. Generally, a single city with at least 50,000 inhabitants or an urbanized area with a total population of at least 100,000 would meet the definition of an MSA.

Qualified Investment – A lawful investment, deposit, membership share or grant that has as its primary purpose community development.

Small Business – A business with gross annual revenues of \$1 million or less.

Small Business Loan – A loan with an original amount of \$1 million or less that has been reported in the Consolidated Report of Condition and Income in the category "Loans secured by nonfarm nonresidential properties" or "Commercial and industrial loans."