



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 19, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Central Texas
Charter Number: 5850**

**1835 North Valley Mills Drive
Waco, Texas 76702-2662**

**Office of the Comptroller of the Currency
Southwestern District
500 North Akard, 1600 Lincoln Plaza
Dallas, Texas 75201-3394**

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 First National Bank (FNB) of Central Texas, Waco, Texas**, as prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of September 19, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

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

- FNB's lending performance has been satisfactory given its size and financial condition.
- The bank's loan-to-deposit (LTD) ratio is very good and has averaged 79% since our last examination. The bank originates a number of consumer loans that directly benefit low- to moderate-income (LMI) individuals.
- A majority of the bank's loans are within its assessment area.
- The distribution of loans to small businesses and borrowers of different income levels reflects a satisfactory penetration. FNB has extended loans to businesses that help create and retain jobs and housing in LMI areas.
- The geographic distribution of the bank's loans, however, needs improvement in the LMI census tracts of the bank's assessment area.
- Management has also provided financial advice and expertise to local government and organizations that promote community development and affordable housing.

The following pages further describe FNB's CRA performance.

The following table indicates the performance level of **The First National Bank of Central Texas** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>First</u> <u>National Bank</u> 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			X
Response to Complaints	Not Applicable. No complaints relating to the bank's CRA performance have been received.		

DESCRIPTION OF INSTITUTION

FNB is a \$117 million bank headquartered in Waco, Texas, approximately 100 miles north of Austin, Texas. The bank is 100% owned by First Central Texas Bancshares (FCTB), a one-bank holding company. FCTB is 100% owned by First Central Holdings, Inc., Dover, Delaware. FNB has one branch office and a separate drive-in facility in Mart, Texas, and one automatic teller machine (ATM) located at FNB's main office in Waco.

The institution's primary focus is to promote the economic development in Waco and McLennan County through its lending programs. FNB's market niche is commercial business and consumer loans, but they also offer various types of residential loan products. The following reflects a detailed breakdown of FNB's loan portfolio as of June 30, 1997.

Loan Type	Dollar Amount (000's)	% of Total
Real Estate (RE) Construction	1,383	1.5
RE Farmland	247	0.2
RE Residential (1-4)	11,729	13.0
RE Multifamily	2,898	3.2
RE Commercial	8,464	9.4
Commercial and Industrial	31,737	35.1
Agricultural	1,601	1.8
Consumer	32,345	35.8
Total	90,404	100.0

Complete banking services are provided Monday through Friday at both locations. FNB faces strong competition from area banks, credit unions, finance companies, and investment brokerage firms. Based on its financial condition, the local economy, product offerings, competition, and prior performance, FNB has the ability to meet the various credit needs in its community. At the last CRA examination in December 1995, the bank's CRA rating was "Satisfactory."

DESCRIPTION OF McLENNAN COUNTY

FNB's assessment area includes all of McLennan County, which encompasses the entire Waco Metropolitan Statistical Area (MSA), and a number of smaller communities. This area is made up of contiguous census tracts which surround and include each banking office. FNB's assessment area does not arbitrarily exclude LMI geographies. This area includes 52 census tracts of which 4 are low-, 11 are moderate-, 23 are middle-, and 14 are upper-income tracts. These areas have a census population of 189 thousand.

According to the 1990 housing data as provided in the census, there are 79 thousand housing units in McLennan County of which 53% are owner occupied, 37% are renter occupied, and 10% are vacant. The median year built for housing was 1969, with a median value of \$49 thousand.

Approximately 22% of the families in the assessment area are considered low-income. Moderate-income families approximate 17% of the population, while middle- and upper-income families comprise the remaining 61%. The local economy is considered good with an unemployment rate of 5.4%. The largest single industry in Waco is higher education, with Baylor University, Texas State Technical College, and one other community college. Other major employers include the health care industry, local government, light manufacturing, and distribution centers. Examples of other major employers include Raytheon Technologies, Plantation Foods, and Providence Hospital. Income data from the 1990 census revealed that the median family income for this MSA is \$29 thousand. Updated 1997 information from the Department of Housing and Urban Development indicates that the median family income has increased to \$39 thousand.

In order to gather more current information on the nature of the community and potential lending opportunities in the assessment area, we contacted two community leaders during this examination. One contact was a representative of a local housing authority. The other contact was a representative of the Greater Waco Chamber of Commerce. Both contacts mentioned that permanent housing/rehabilitation loans to low-income families is an important credit need. One contact also mentioned the need for additional banking services in the East Waco area. Both contacts mentioned FNB as being active in the community and generally responsive to credit needs by providing consumer and small business loans. Noteworthy community activities include providing financial counseling to LMI individuals..

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

FNB's LTD ratio is very good, given its asset size, financial condition, and known credit needs of its assessment area. Since the last CRA examination, the LTD ratio has increased tremendously from 35% in December 1995, to 91% on June 30, 1997. The average LTD ratio over the seven quarters since the last examination was 79%. The opening of a full service office in Waco,

coupled with management's focus on providing loans to enhance small business, consumer, and economic growth, were principal factors in the bank's improved LTD. The LTD ratio for its main competitors in the Waco MSA averaged approximately 65% for this same period.

Lending in the Assessment Area

A majority of the bank's loans are within its assessment area. Using internal reports and Home Mortgage Disclosure Act (HMDA) information, an analysis of lending patterns was performed. Our sample included loans originated since 1995. This analysis indicates that 95% of the number and 94% of the dollar amount of mortgage, home improvement, and refinanced home mortgage loans were within the bank's assessment area. In addition, 76% of the number and 73% of the dollar amount of consumer loans were within the bank's assessment area.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The loan portfolio reflects a reasonable distribution of consumer loans among individuals of various income levels and a good dispersion to businesses of different sizes. In order to assess this bank's performance in this criteria, we used HMDA information relative to residential mortgage-related loans originated since 1995, and a sample of consumer and business loans made during this same period. Our analysis indicates that FNB lends to all applicants, regardless of their income category. Most lending to LMI individuals centered in consumer loans. We did note, however, that the number of mortgage-related loans originated to LMI families are not in line with the different income levels within the assessment area. Based on the 1990 census data, low-income families comprise 22% in the assessment area while moderate-income families comprise 17%. Our analysis reflects that only 2% of the mortgage loans were made to low-income families and 8% were to moderate-income families. While the bank's offices are accessible to all income levels, bank records indicate that very few mortgage loan applications have been received from LMI families. The level of consumer lending to LMI families is considered good in relation to the nature of the community, competition, and available lending opportunities. The table listed below summarizes our analysis of lending activity in the assessment area by different incomes levels.

Loans to Borrowers of Different Income Levels										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total	
Area Demographics	21.72%		17.18%		21.88%		39.22%		100.00%	
	#	%	#	%	#	%	#	%	#	%
Mortgage/Home Improvement/Refinanced Loan Distribution	2	2%	9	8%	19	16%	86	74%	116	100%
Consumer Loan Distribution	10	15%	16	4%	13	20%	27	41%	66	100%
Combined Loan Distribution	12	7%	25	14%	32	18%	113	61%	182	100%

FNB originates a large number of commercial loans, a number of which have been to “small businesses” with revenues less than \$1 million. Since 1995, the bank originated 876 commercial loans totaling \$79.3 million. Management has focussed on providing loans that will enhance the local economy. FNB has also provided loans to a number of businesses that have provided employment and housing for LMI individuals. The chart below reflects the results of our analysis of a sample of commercial real estate (RE), agricultural (AG), and other commercial loans originated since 1995.

Loans to Small Businesses								
Revenue Ranges	< \$100M		\$100M -- \$500M		\$500M -- \$1 MM		> \$1 MM	
	#	%	#	%	#	%	#	%
Commercial RE/AG	6	35%	9	53%	1	6%	1	6%
Other Commercial	3	10%	9	31%	1	3%	16	56%
Total	9	20%	18	40%	2	4%	17	36%

Geographic Distribution of Loans

The geographic distribution of FNB's loans needs improvement. Our analysis included all residential mortgage loans and an analysis provided by management relative to consumer loans originated by census tract since 1995. This sample revealed that the geographic distribution of loans does not reflect the make-up of the bank's assessment area.

Of the 52 census tracts within the assessment area, 4 tracts or 8% are considered low-income and 11 tracts or 21% are moderate-income. Our loan sample revealed that only 2% of loans were made in low-income tracts and 16% were made in moderate-income tracts. The majority of residential mortgage loans originated were within middle- and upper-income tracts. The location of the main office in West Waco is not as easily accessible to individuals in the LMI areas. In summary, our analysis reflects that the bank's penetration in the LMI areas does not meet the standards for a satisfactory rating under this performance criteria. The chart below reflects the results of management's analysis and HMDA information of FNB's geographic distribution of mortgage and consumer loans originated since 1995.

Geographic Distribution of Loans By Census Tracts										
	Low Income Areas		Moderate Income Areas		Middle Income Areas		Upper Income Areas		Total	
Area Demographic Characteristics	8%		21%		44%		27%		100%	
Number of Census Tracts	4		11		23		14		52	
	#	%	#	%	#	%	#	%	#	%
Mortgage Purchase/Refinance/Home Improvement	2	2%	10	8%	57	48%	49	42%	118	100%
Consumer	38	2%	285	17%	854	50%	542	43%	1,719	100%
Total	40	2%	295	16%	911	50%	591	17%	1,837	100%

Response to Complaints

No complaints relating to CRA performance have been received by FNB.

Compliance with Fair Lending Laws and Regulations

A fair lending examination was conducted as part of a compliance examination of FNB. The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. No fair lending violations were identified.