



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 21, 2011

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

First National Bank of McGregor
Charter Number: 4076

401 South Main
McGregor, TX 76657

Office of the Comptroller of the Currency
Southern District
San Antonio – North Field Office
10001 Reunion Place, Suite 250
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'S CRA RATING: This institution is rated “Satisfactory.”

FNB McGregor’s (FNB) performance reflects an overall satisfactory level in meeting the community’s credit needs within its assessment area (AA). This rating is based on findings noted through analysis of the lending test performance factors relative to the “Small Bank” evaluation criteria. The following highlights the bank’s performance:

- FNB’s loan-to-deposit (LTD) ratio is excellent, averaging 96% during this evaluation period.
- FNB’s lending within the AA demonstrates a satisfactory level of performance overall, as a majority of the bank’s loans originated within its AA.
- FNB’s extensions of credit reflect an overall reasonable penetration to borrowers of different incomes and to small businesses.
- FNB’s residential and consumer lending activity in low- to moderate-income (LMI) census tracts (CTs) is well below area demographics. Commercial lending penetration is good for moderate CTs but reflects no penetration in low-income CTs.

SCOPE OF EXAMINATION

We used small-bank CRA procedures for our examination. We reviewed data for the prior two years and the first three quarters of the current year. Our loan samples included residential real estate, commercial real estate, and consumer loans originated since January 1, 2009, through September 30, 2011. We reviewed residential real estate, as this was FNB’s primary loan product based on total dollar volume of loans originated as of September 30, 2011. We reviewed commercial real estate loans as this was the secondary loan product based on the total dollar volume of loans originated. We also reviewed consumer loans as this category represented the bank’s primary loan product based on the number of loans originated. We reviewed the latest internal audit work papers of the bank’s Home Mortgage Disclosure Act of 1975 (HMDA) data and noted no significant errors with the bank’s reporting.

DESCRIPTION OF INSTITUTION

FNB McGregor’s headquarter is designated as the original location on Main Street, in the downtown district of McGregor. The city of McGregor is 15 miles southwest of Waco, Texas. In addition to the main office location, FNB has a branch located approximately 7 miles east of its headquarters. The free-standing branch opened in the summer of 2006 and is located near the border of McGregor and Woodway. Both locations are full-service and offer a drive-through facility and 24-hour automated teller machines (ATMs). FNB offers a range of traditional banking services, such as checking and savings accounts as well as a variety of loan products. The bank also provides Internet banking, ATM and check cards, merchant card services, safe deposit boxes, official checks and trust services.

FNB identifies its primary focus of promoting economic development in its AA through its lending programs. Its market niche is residential real estate, commercial real estate, small business, and consumer loan products, especially auto loans. The following table illustrates the distribution of the bank’s loan portfolio based on the dollar amount and percentage of total dollar amount of loans originated as of September 30, 2011.

Loan Type	Dollar Amount \$ (000)	% of Total Loans (Dollar Amount)
Real Estate Residential (1-4)	45,912	44.70
Real Estate Nonfarm Nonresidential	23,829	23.20
Commercial and Industrial	11,935	11.62
Consumer	10,312	10.04
Real Estate Construction	5,002	4.87
Agricultural Production	2,219	2.16
Real Estate Multifamily Residential	1,8969	1.82
Real Estate Farmland	1,222	1.19
Other	411	.40
Total	\$102,711	100%

Source: September 30, 2011 Report of Condition

DESCRIPTION OF ASSESSMENT AREA(S)

FNB McGregor's AA includes a total of 52 CTs. The bank's AA encompasses all 51 CTs of McLennan County and one CT in the eastern portion of Coryell County. The CT in Coryell County is included in the same AA even though it is in a different metropolitan statistical area (MSA) because it is contiguous to the Waco MSA and there are no branches or deposit-taking ATMs in it. Communities included in the AA are McGregor, Waco, Woodway, Hewitt, Moody, Crawford, and Oglesby. The entire population of the AA totals 220,972. Of the 54,938 families located within the AA, 21% are designated as low-income and 18% as moderate-income families. The remaining AA is comprised of 21% middle-income and 40% upper-income families.

Major employers in the AA include: **McGregor** - the call center operated by Convergys, McGregor Independent School District (ISD), Smead Manufacturing, and the Trane Company; **Waco** - Providence Health Center, Baylor University, Waco ISD, and the City of Waco.

The previous CRA examination noted that the addition of the second branch changed the AA to also include the high-growth communities of Hewitt and Woodway. As Waco residents move out of the city into the suburbs, demand for mortgage, commercial, and consumer loans within those communities has increased. The effects of meeting this loan demand was reflected in both the LTD ratio and in lending in the AA tests we performed during this analysis.

Specific demographic data for FNB's sole AA, McLennan County, is detailed on the table below.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF MCLENNAN COUNTY ASSESSMENT AREA	
Population	
Number of Families	53,122
Number of Households	78,926
Geographies	
Number of Census Tracts	52
% Low-Income Census Tracts	10%
% Moderate-Income Census Tracts	27%
% Middle-Income Census Tracts	33%
% Upper-Income Census Tracts	31%
Median Family Income (MFI)	
2000 MFI for AA	\$43,454
2011 HUD-Adjusted MFI	\$51,900
2010 HUD-Adjusted MFI	\$51,900
2009 HUD-Adjusted MFI	\$51,700
Economic Indicators	
Unemployment Rate	4.76%
2011 Median Housing Value	\$62,261
% of Households Below Poverty Level	18%

Source: 2000 Census Data; Department of Housing and Urban Development

FNB's AA is very competitive with numerous credit unions, national and state chartered banks within miles and throughout the Waco MSA. In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted a local economic development official. The contact did not identify any particular credit needs within the AA that were not being met.

A review of FNB's lending practices revealed no evidence of illegal discrimination. The AA meets the requirements of the regulation and does not arbitrarily exclude LMI geographies. Based on its financial condition, resources, the local economy, product offerings, and competition, FNB has the ability to meet the various credit needs within its community. No legal impediments or other factors hinder FNB's ability to provide credit within its AA. FNB received a "Satisfactory" rating at its previous CRA examination conducted in November 2007.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

FNB's performance reflects an overall satisfactory level in meeting the community's credit needs within its assessment area (AA). In making this determination, we utilized internally generated management reports, reviewed data reported to HMDA of all residential real estate loans, and sampled 23 commercial loans and 30 consumer loans originated since the last CRA evaluation period.

Loan-to-Deposit Ratio

FNB's LTD ratio is more than reasonable given its asset size, financial condition, and lending opportunities available in the AA. Since the last CRA examination, the LTD ratio has increased from 90% at September 30, 2007, to 96% at September 30, 2011. FNB's average LTD ratio over the past 16 quarters is 96%. This compares very well with the average LTD of similarly situated banks which ranges from 75% to 96%. The asset size and average LTD ratios for FNB and its competing banks are listed on the table on the following page.

Institution	Assets As Of June 30, 2011	Average LTD Ratio %
Fidelity Bank of Texas – Waco	85,058	96.10
FNB McGregor	118,813	96.08
Allegiance Bank Central Texas	205,407	82.21
Community Bank and Trust	405,175	81.60
American Bank	368,962	74.86

Source: Institution Consolidated Reports of Condition *As of September 30, 2011

Lending in Assessment Area

FNB's lending in the AA is satisfactory as a majority of the bank's loans are made within its AA. We reviewed residential real estate loans as this was the primary loan product comprising 45% of the dollar volume of loans originated. We sampled commercial loans as commercial loans were the second largest loan product comprising 35% of the dollar volume of loans originated. While consumer loans comprise only 10% of the total dollar volume of loans originated, we included consumer loans in our sample as they are the primary loan product based on the number of loans originated. Our findings show that a majority (85%) of the total number of loans and 82% of the total dollar volume of loans originated were made within the AA.

Data reported under HMDA indicates that a majority of FNB's 1-4 Family residential loans are made within its AA. Of the total number of residential real estate loans that originated between 2009 and September 30, 2011, 83% of the number and 79% of the dollar volume originated within the AA.

Our commercial and consumer loan samples indicate that FNB's level of lending within its AA is excellent as a substantial majority of these loans originate within the AA. In order to assess performance for these criteria, we reviewed a sample of 23 commercial and 30 consumer loans originated between 2009 through the commencement of our onsite review. Our analysis determined that that 91% of the number and 96% of the dollar amount of commercial loans were made within the AA. We further determined 94% of the number and 98% of the dollar amount of consumer loans were made within the AA.

Table 1 – Total Loans Reviewed for McLennan County Assessment Area								
LOAN TYPE	In Assessment Area				Out of Assessment Area			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
1-4 Family Residential	220	83.33	17513	78.68	44	16.67	4,745	21.32
Commercial	21	91.30	4110	96.48	2	8.70	150	3.52
Consumer	29	93.55	211	97.90	1	3.23	4	1.64
Total Reviewed	270	85	21,834	81.67	47	15	4899	18.33

Source: Data reported under HMDA; U.S. Census data.

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

FNB's loan portfolio reflects an overall Satisfactory penetration of borrower distribution. Based on 2000 Census data, residential real estate lending to LMI was slightly below AA demographics. Low-income families represented 8% of total families within the AA and moderate-income families represented 23% of total families within the AA.

Based on the HMDA data for residential real estate loans, 6% of the number and 3% of the dollar amount of loans originated were to low-income families while 19% of the number and 12% of the dollar amount of loans originated were to moderate-income families.

However, consumer lending to both low- and moderate-income households exceeded AA demographics. Within the McLennan County AA, low-income households represent 25% of total households. Based on our sample of consumer loans originated at FNB McGregor, 32% of the number of loans and 18% of the dollar volume of loans were made to low-income households. Moderate-income households represent 15% of total households in the AA. Based on our sample, 19% of the number and 24% of the dollar volume of loans originated at FNB McGregor were to moderate-income households.

Table 2A - Borrower Distribution of Residential Real Estate Loans in McLennan County Assessment Area								
BORROWER INCOME LEVEL	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	8.07%		22.75		33.18		36.00	
	% of # of Loans	% of Amount	% of # of Loans	% of Amount	% of # of Loans	% of Amount	% of # of Loans	% of Amount
Total	6.36	3.19	19.09	12.32	20.45	17.12	49.09	61.43

Source: Data reported under HMDA; U.S. Census data.

Table 2B - Borrower Distribution of Consumer Loans in McLennan County Assessment Area								
BORROWER INCOME LEVEL	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	25.33%		15.07		17.82		41.78	
	% of # of Loans	% of Amount	% of # of Loans	% of Amount	% of # of Loans	% of Amount	% of # of Loans	% of Amount
Total	32.26	18.14	19.35	23.67	25.81	16.01	19.35	36.09

Source: Loan sample; U.S. Census data.

Small businesses are defined as having annual gross revenues of \$1 million or less. FNB’s record of lending to small businesses exceeds area demographics. According to U.S. Census information, 68% of businesses in the AA have revenues of less than \$1 million. Of the business loans FNB McGregor originated in the AA, approximately 83% had revenues below \$1 million. Management continues to focus on providing loans that will enhance the local economy. Table 2C below reflects the results of our selected sample of commercial loans originated in McLennan County AA.

Table 2C - Borrower Distribution to Businesses in McLennan County Assessment Area				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	68.04	2.84	29.13	100%
% of Bank Loans in AA by #	82.61	17.39	0	100%
% of Bank Loans in AA by \$	72.53	27.47	0	100%

Source: Loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans

FNB’s residential and consumer lending activity in LMI CTs is well below area demographics. Commercial lending penetration is good for moderate-income CTs but reflects no penetration in low-income CTs.

FNB’s residential real estate lending to LMI households located in McLennan County shows poor dispersion. According to 2000 Census information, 5% of AA owner-occupied housing are located in low-income CTs and 19% of AA owner-occupied housing are located in moderate-income CTs. However, based on the HMDA reportable data, the bank made 2% and 9% of residential real estate loans to LMI CTs.

FNB’s consumer lending to individuals in LMI CTs in McLennan County shows poor dispersion. According to 2000 Census information, 11% of AA households are located in low-income CTs and 25% of AA households are in moderate-income. However, based on our sample, the bank made no loans to households located in low-income CTs and 3.23% of consumer loans to households located in moderate-income CTs.

Table 3B below reflects the results of our geographic distribution test of consumer loans for McLennan County.

Table 3A - Geographic Distribution of Residential Real Estate Loans in McLennan County Assessment Area								
<i>Census Tract</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Owner-Occupied</i>	4.80		18.68		36.55		39.97	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	2.27%	1.10%	8.64%	8.86%	55.45%	40.79%	33.64%	49.25%

Source: HMDA reportable data; U.S. Census data.

Table 3B - Geographic Distribution of Consumer Loans in McLennan County Assessment Area								
<i>Census Tract</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Households</i>	11.08		25.18		31.97		31.77	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	0.00%	0.00%	3.23%	4.35%	64.52%	47.73%	29.03%	46.28

Source: Loan sample; U.S. Census data.

FNB’s level of commercial lending to businesses in LMI CTs shows good geographic dispersion in moderate-income CTs. However, our sample noted no penetration to low-income CTs. Our total sample of 23 commercial loans indicated 35% of bank small business loans were to borrowers located in moderate-income tracts. This level of lending exceeds area demographics, which show that 25% of AA businesses are located in moderate-income CTs. In terms of dollar amount, 38% of AA loans were made to moderate-income CTs.

Table 3C - Geographic Distribution of Loans to businesses in McLennan County Assessment Area								
Census Tract	LOW		MODERATE		MIDDLE		UPPER	
% of AA Non-Farm Businesses	3.94%		24.81%		28.32%		42.93%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	0.00%	0.00%	34.78%	38.78	17.39%	14.63%	47.83%	46.60%

Source: Loan Sample; U.S. Census data

Responses to Complaints

FNB McGregor has received no complaints relating to its performance under the CRA.

Fair Lending or Other Illegal Credit Practices Review

The last comprehensive Fair Lending examination was performed in June 2010. No evidence of disparate treatment was noted during that Fair Lending examination. We found no evidence of any discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs during this CRA examination.