

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 4, 1999

**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
Austin Field Office
8310 North Capital of Texas Highway, Suite 250
Austin, Texas 78731-1080**

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 (LMI) neighborhoods, consistent with the 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 of Central Texas (FNB), Waco Texas*, as prepared by the *Office of the Comptroller of the Currency (OCC)*, the institution's supervisory agency, as of October 4, 1999. The OCC 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.”**

- C FNB's lending performance is satisfactory given its size, financial condition, and known credit needs in its assessment area.
- C The bank's loan-to-deposit (LTD) ratio is excellent and has averaged 81% since our last examination.
- C A substantial majority of FNB's loans are within its assessment area.
- C FNB has demonstrated a satisfactory willingness to extend loans to individuals of varying incomes and businesses of different sizes.
- C The geographic distribution of the bank's loans within its assessment area is reasonable.
- C There have been no complaints with respect to FNB's CRA performance.

The following pages further describe FNB's CRA performance.

DESCRIPTION OF INSTITUTION

FNB is a 177 million (MM) institution headquartered in Waco, Texas. FNB has one full-service branch office in Mart, Texas, approximately 30 miles East of Waco. Bank lobby services and drive-through facilities are provided Monday through Friday at each office. A twenty-four hour automated teller machine (ATM) is also available at the main office in Waco.

FNB is 100% owned by First Central Texas Bancshares, (FCTB) a one-bank holding company (HC) located in Waco. FCTB is 100% owned by First Central Holdings, Inc., Dover, Delaware. Consolidated assets of the bank and HC as of June 30, 1999, were 177MM. Prior to the HC's acquisition of FNB in 1995, the bank was headquartered in Mart, Texas.

The institution's principal focus is to promote economic development in Waco and McLennan County through its lending programs. FNB's primary lending products include commercial business and consumer loans. The bank also offers various residential loan products. Total loans as of

September 30, 1999, comprise 76% of total assets. The consumer and commercial portfolios have shown significant growth since our previous examination. The majority of the consumer loan growth has been in indirect automobile loans. The following reflects a detailed breakdown of FNB's loan portfolio as of September 30, 1999.

Loan Type	6/30/1997 Dollar Amount (000's)	% of Total Loans	9/30/1999 Dollar Amount (000's)	% of Total Loans
Real Estate (RE) Construction	5,655	6.2%	4,878	3.5%
RE Farmland	1,109	1.2%	597	.43%
RE Residential (1-4)	21,304	23.2%	17,242	12.37%
RE Multifamily Residential	4,158	4.5%	4,059	2.9%
RE Nonfarm Nonresidential	21,674	23.6%	26,243	18.8%
Agricultural Production	694	0.7%	406	.3%
Commercial and Industrial	21,401	23.3%	31,882	22.88%
Credit Cards	510	0.6%	0	0%
Consumer	14,959	16.3%	53,809	38.61%
Other	309	0.4%	243	.17%
Total	91,773	100%	139,359	100%

FNB faces strong competition from area banks, savings and loans, credit unions, mortgage companies, and investment brokerage firms. There are at least 17 local community banks and savings institutions in the Waco area, as well as six branch offices of larger regional and multinational financial institutions. Despite the strong competition, the bank has experienced strong loan and deposit growth over the past few years. Based on its financial condition, the local economy, product offerings, and prior performance, FNB has the ability to meet the various credit needs in its community. No legal impediments or other factors hinder the bank’s ability to provide credit in its assessment area.

At the last CRA examination on September 19, 1997, the bank’s CRA rating was “SATISFACTORY.”

DESCRIPTION OF ASSESSMENT AREA

FNB’s assessment area includes all of McLennan County, which is located in the Waco Metropolitan Statistical Area (MSA). This assessment area includes the city of Waco, Mart, and a number of smaller communities. This area meets the requirements of the regulation and does not arbitrarily exclude LMI geographies. The main office in Waco is located in an upper-income area. The office in Mart is in a middle-income area. Demographic information on the Waco MSA is shown below.

Assessment Area Demographics	
Population	189M
Number of Families	48M
Number of Households	70M
Number of Farms	390
Number of Businesses	8,017
% Farms with Revenues <1MM	94%
% Businesses with Revenues <1MM	74%
Census Tracts ¹	53
# Low- Income Tracts	4

¹Census tracts are small, defined areas in an MSA as defined by the U.S. Census.

#Moderate-Income Tracts	11
#Middle-Income Tracts	23
#Upper-Income Tracts	14
Demographic Information on the Waco MSA	
% Low-Income Families	21.72%
% Moderate-Income Families	17.18%
% Middle-Income Families	21.88%
% Upper-Income Families	39.22%
Number of Housing Units	79M1
% Owner Occupied Units	53%
1-4 Family Units	77%
Multi-family Units	18%
% Rental Units in Low-Income Areas	63%
% Rental Units in Moderate-Income Areas	43%
% Households Below Poverty in Low-Income Tracts	58%
% Households Below Poverty in Moderate-Income Tracts	31%
Median Housing Value	\$49,597
1990 MFI for Waco MSA	\$28,953
1999 HUD MFI for Waco MSA	\$42,700

Source: 1990 census, Department of Housing and Urban Development (HUD), 1999 Dunn & Bradstreet

The localeconomy is considered very good with an unemployment rate of approximately 4%. The largest single industry in Waco is higher education with Baylor University, Texas State Technical College, and McLennan Community College. Other major employers include the health care industry, local government, hospital, light manufacturing, and distribution centers. Examples of other major employers include Raytheon Technologies, Hillcrest Baptist Medical Center, Plantation Foods, Providence Health Systems, and the Waco Independent School District.

The city of Mart is in the southeastern rural portion of McLennan County, approximately 30 miles from Waco. Many Mart resident commute to Waco for employment; however, this area

is more influenced by the agricultural industry. The drought and lower cattle and grain prices have had a negative impact on this community and surrounding areas the past few years.

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 organizations during this examination. The organizations were involved in providing affordable housing and small business lending. We also reviewed community contacts made by other examiners in the Waco area over the

past year. Contacts mentioned the need for affordable housing loans and that several area banks, particularly FNB, were actively working to help provide these types of loans to the community. The small business organization indicated that most of the needs of small businesses were being met in the Waco area due primarily to the strong competition for loans among area banks.

One contact also mentioned the need for bank referrals to provide loans to entrepreneurs who cannot qualify for typical bank financing. FNB has contacted this organization to offer assistance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's LTD ratio is excellent, given its asset size, financial condition, and lending opportunities in the assessment area. Since the last CRA examination, the quarterly average LTD ratio has increased slightly from 79% at the previous examination to 81%. On September 30, 1999, the LTD ratio was 85%. This level of performance exceeds the bank's primary competitors and similarly sized community banks in the Waco area which averaged 71% over the same time period. This level of performance also exceeds all banks in McLennan County which averaged 56% during this same period.

Lending in the Assessment Area

A substantial majority of the bank's loans are within its assessment area. Using Home Mortgage Disclosure Act (HMDA) ² information since the last examination and internal

²HMDA information is reported annually by all residential mortgage lenders in an MSA. This information includes all types of residential mortgages made by an institution: home purchase (owner, non-owner occupied),

reports provided by management, we performed an analysis of lending patterns within the assessment area. The bank's internal reports included major loan products, consumer, and commercial loans, originated since the previous examination.

We found that 97% of the number and 96% of the dollar amount of mortgage-related HMDA loans were made within the bank's assessment area. Management's reports indicate that at least 71% of the number and 66% of the dollar amount of all consumer and commercial loans originated since October 1997 through September 30, 1999, are within the bank's assessment area.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Our analysis indicates that FNB lends to all applicants, regardless of their income category.

In order to analyze the bank's performance in this criteria, we reviewed HMDA information since the last examination, and a sample of consumer (67) and business loans (22) originated during the same time period. The consumer sample included loans from both offices and loans purchased from automobile dealers. We compared the bank's consumer and mortgage loan distribution to the percentage of low-³, moderate-, middle-, and upper-income families in the assessment area. To analyze the business loans, we reviewed the size of the reported business revenues and compared the bank's loan distribution to the percentage of small and large businesses in the assessment area.

The bank's consumer lending performance is most reflective of the area demographics. The bank's consumer loan distribution to LMI borrowers compares favorably to the demographic make-up of the community. As indicated in the chart below, our sample revealed 30% of the bank's consumer loans were to low-income borrowers. This level of performance is higher than the percentage of low-income families in the area (22%). Our sample also revealed that 16% of the bank's consumer loans were to moderate-income borrowers. This level of performance is very similar to the demographics which reflect 17% of the families are in the moderate-income category.

Although the bank's mortgage lending performance to low-income borrowers is not as similar to the area demographics, the bank has improved its performance since the previous

refinances, home improvement loans, home equity loans, and multi-family dwellings).

³Low-income is defined as < 50% of the updated (1999) HUD median family income (MFI); Moderate-income is <80% of the MFI; Middle-income is 80-120% of the MFI; and Upper-income is >120% of the MFI.

examination. FNB reported 6% of its mortgage loans to low-income families as compared to 2% in our previous examination. This level of performance exceeds other area banks and mortgage lenders which only reported 4% of their loans to low-income borrowers. As indicated in the chart below, FNB does reflect a very good distribution of mortgage loans to moderate-income borrowers (17%). This level of performance is also an improvement from the previous examination in which 8% of the bank’s HMDA loans were to moderate-income borrowers. FNB’s lending performance to moderate-income borrowers exceeds other institutions which reported 13% of their HMDA loans to these borrowers.

The disparity in residential loan distribution to low-income borrowers as compared to the demographic make-up of the community can be explained to some extent by the problems that many lower-income borrowers face in meeting down payment requirements for residential mortgages. To help borrowers overcome this obstacle, and to provide more affordable mortgages in the community, FNB has become more involved in the Neighborhood Housing Service (NHS) Organization. They have funded 3 loans under a NHS down payment assistance program. FNB is the only local institution participating in a secondary marketing program of the Neighborhood Service of America (NHSA) to help provide long-term, lower interest rate, mortgage loans. The bank has made one loan under this program which was sold in the secondary market.

The table listed below summarizes our analysis of consumer and residential lending performance in the assessment area by different incomes levels. Aggregate HMDA information is also presented for all mortgage lenders in the Waco MSA.

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%	
# of Families	10,513		8,315		10,590		18,981		48,399	
	#	%	#	%	#	%	#	%	#	%

FNB's 4Q1997 HMDA Loans	2	25%	1	13%	2	25%	4	50%	8	100%
FNB's 1998 HMDA Loans	1	2%	8	16%	9	18%	31	62%	50*	100%
FNB's YTD 1999 HMDA Loans	3	7%	8	18%	4	9%	29	66%	44	100%
Total FNB's HMDA Loans 4Q97-9/30/99	6	6%	17	17%	15	15%	64	63%	102	100%
Consumer Loan Distribution 4Q97 -9/99	20	30%	11	16%	16	24%	20	30%	67	100%
COMBINED LOAN DISTRIBUTION	26	15%	28	17%	31	18%	84	50%	169	100%

* Income information was not available on 1 HMDA loan in 1998

Waco MSA Aggregate HMDA Distribution by Borrower Income										
1997 Aggregate HMDA Data in Waco MSA	98	2%	569	13%	1648	37%	2160	48%	4478	100%
1998 Aggregate HMDA Data in Waco MSA	355	6%	821	13%	1313	20%	2650	41%	6463	100%
Total Aggregate HMDA Loans 1997-1998	453	4%	1,390	13%	2,961	27%	4,810	44%	1094	100%

In reviewing the bank's commercial loan distribution since our previous examination, we found that FNB has originated a large number of loans to businesses of various sizes in the Waco area (486 in number and 40MM in dollars). Our sample of 22 loans since the previous examination

reflected that the majority of these loans were to larger businesses; however, as reflected in the chart below, the bank has made several loans to “small businesses” or those with revenues less than 1MM.

1999 information from Dunn & Bradstreet reflects a large percentage of small businesses in the area (74%); however, the community contacts indicated that most of the small business needs in the area were being met by area financial institutions. FNB has actually originated more smaller commercial loans to sole proprietors and various individuals; however, they have not tracked all of these loans on the “commercial loan” system. Revenue information for these types of loans is not always obtained by the bank and was not available for our review. FNB has also made numerous loans to businesses and investors that provide jobs and affordable housing for LMI borrowers. Bank management also participate on a loan committee of the Central Texas Certified Development Company which focuses primarily on small business lending. In November 1998, FNB also committed 200M towards a small business investment center which will serve small business in Texas.

The following chart reflects the revenue distribution of commercial loans in our sample.

Business Loans										
Revenue Ranges	< \$100M		\$101M - \$250M		\$251M - \$500M		\$501M - \$1 MM		> \$1 MM	
	#	%	#	%	#	%	#	%	#	%
Commercial and Commercial Real Estate Loans	1	5%	1	5%	3	14%	2	9%	15	68%

Geographic Distribution of Loans

The geographic distribution of the bank’s loans is reasonable given the demographics of the assessment area and the location of the bank. Our analysis of FNB’s performance included all HMDA loans since the previous examination and management’s analysis of consumer and commercial loans for the same time period. Although the majority of the bank’s loans are in middle and upper income areas, this distribution is not unusual given the local demographics.

Demographic information indicates that a significant percentage of the families (71%) in the MSA are in middle- and upper- income tracts. 1999 Dunn & Bradstreet information also reflects that the majority of commercial businesses and farms are in upper- and middle-income areas (72%). Residential lending opportunities are also greater in the upper- and middle-income areas as demographic information reflects a higher percentage of home owners in these areas (55% in middle-income areas, and 70% in upper-income areas). Demographic

information also reflects high poverty levels in LMI areas (58% in low-, 31% in moderate-income areas). While the need for loans in these LMI areas may be greater, lower income levels make it more difficult for borrowers to qualify for loans.

FNB is also physically located closer to the middle- and upper-income areas. The LMI areas are in the central, eastern, and northern portions Waco, while FNB is located in the Western commercial district of Waco. As previously mentioned, the Mart office is located in a middle-income area. All of the LMI tracts are more accessible to other banks and credit unions which have offices closer to these specific areas.

The majority of the bank's loans in LMI areas are consumer and business loans. The bank has not made any residential loans in low-income areas; however, there are several factors that help explain the lack of lending performance in these areas. One of the four low-income tracts is located adjacent to Baylor University which consists mostly of student housing. Two other low-income census tracts are located in commercial business areas with very few family residences. The fourth low-income area reflects a high percentage of rental properties (66%) and a high poverty rate (52%).

The bank's residential lending performance in moderate- income areas is better than in low-income areas and approximates the same level of lending as our previous examination. Other area financial institutions have reported slightly higher percentages of HMDA loans in LMI areas than FNB; however, residential lending is not a primary product line for FNB. The bank's residential loan distribution by income level is more reflective of its efforts to provide affordable mortgages in the community.

FNB's lending performance in distressed areas is slightly better than indicated by its performance in LMI tracts. Some of the bank's loans in middle income tracts are included in an "Enterprise Community," which is an area designated by HUD and the city of Waco as an area in need of revitalization. The City of Waco receives federal funding to help revitalize these areas. Since our

last examination, the bank has made the following loans in middle-income tracts which have been included in the Enterprise Community. The sample of consumer loans included only loans originating in 1999.

Loans in the Enterprise Community		
Loan Type	#	\$
Real Estate	5	\$268M

Commercial	5	\$226M
Consumer	32	\$353M
Total	42	\$847M

The following chart reflects the results of our sample of mortgage, consumer, and commercial loans originated within the bank's assessment area since the last examination. Aggregate HMDA information from all residential mortgage lenders in the Waco MSA is also presented below.

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	
	#	%	#	%	#	%	#	%	#	%
FNB's 4Q97 HMDA Loans	0	0%	1	13%	1	13%	6	74%	8	100
1998 FNB's HMDA Loans	0	0%	4	8%	27	54%	19	38%	50	100
1999 FNB's Year to Date HMDA Loans	0	0%	3	7%	19	43%	22	50%	44	100
Total FNB's HMDA Loans from 4Q97-9/30/99	0	0%	8	8%	47	46%	47	46%	102	100
Geographic Distribution of Loan's by Census Tract (Continued)										
	Low- Income Areas		Moderate- Income Areas		Middle- Income Areas		Upper- Income Areas		Total	
Consumer 4Q97-9/30/99	59	2%	421	16%	1342	50%	873	32%	2695	100

Commercial Loans 4Q97-9/30/99	3	1%	62	13%	231	48%	190	39%	486	100
FNB's COMBINED TOTAL (HMDA, Consumer, Commercial)	62	2%	491	15%	1620	49%	1110	34%	3283	100

Aggregate HMDA Geographic Distribution for Waco MSA										
	Low- Income Areas		Moderate- Income Areas		Middle- Income Areas		Upper- Income Areas		Total	
1997 Aggregate Mortgage Loans from other lenders in Waco MSA	98	2%	569	13%	1,648	37%	2160	48%	4478*	100
1998 Aggregate Loans in Waco MSA	104	2%	872	14%	2342	36%	3144	49%	6463*	100
Total HMDA Loans in WACO MSA	202	2%	1441	13%	3990	36%	5304	48%	1094 1	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 this CRA and compliance examination of FNB. Our review of consumer automobile loans made within the last year revealed that the bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. No fair lending violations were identified.