

SMALL BANK

**Comptroller of the Currency
Administrator of National Banks**

PUBLIC DISCLOSURE

August 27, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Waco National Bank
Charter Number: 20014**

**1700 N. Valley Mills Drive
Waco, Texas 76710**

**Office of the Comptroller of the Currency
Southwestern District
1600 Lincoln Plaza
500 North Akard
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 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 **First Waco National Bank (First Waco)**, Waco, Texas, as prepared by **The Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of August 27, 1998. 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**.

- First Waco's lending performance has remained very strong since the previous CRA examination, despite slower growth trends in the past year. First Waco's loan-to-deposit (LTD) ratio has averaged 84% since the last CRA examination, compared to a local peer average ratio of 60%.
- The majority of First Waco's loans have been made within its community. Approximately 68% of the loans made year-to-date 1998 are within the bank's assessment area.
- First Waco has a reasonable distribution of loans to borrowers and businesses of all income levels.
- The geographic distribution of First Waco's loans could be improved in low- and moderate-income areas. However, First Waco has provided financial and managerial support to local community development organizations which help provide affordable housing loans and create jobs in low- and moderate-income areas.

The following pages further describe First Waco's CRA performance.

The following table indicates the performance level of **First Waco** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>First Waco 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

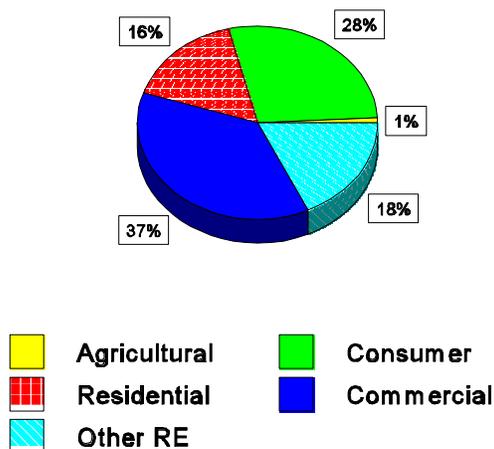
First Waco is a \$113 million bank located in Waco, Texas, approximately 100 miles north of Austin and 90 miles south of Dallas. The bank was chartered in 1985 and acquired by ExTraCo Bankshares, Inc., in 1986. ExTraCo is a multi-bank holding company, headquartered in Waco. Affiliate holding company banks are located in Temple and Gatesville. First Waco has two offices in the Waco metropolitan area. The main office is located on Valley Mills Drive, a retail commercial business area. First Waco's branch office is located in Hewitt, a suburban area southwest of Waco.

First Waco offers traditional loan and deposit products and its primary business focus is commercial and consumer lending. The majority of the bank's mortgage loans are referred to an affiliate mortgage company, First Banker's Mortgage Company. Trust and investment services are also available through holding company affiliates. Twenty-four hour banking services are available through an on-site automatic teller machine (ATM) and a telephone account access system.

First Waco's loan distribution on March 31, 1998, is provided below.

Loan Distribution

As of 3/31/98



The local economy is considered good and improving. The Waco economy is diversified with numerous small-to-medium sized retail businesses, manufacturers, and industrial enterprises. Waco's central location, major thoroughfares, and railways have promoted growth of light manufacturing and warehouse distribution centers. Population growth in the metropolitan statistical area (MSA) over the past few years has attracted several regional and national chain restaurants and retail establishments. Waco is also becoming a regional focal point for its medical and educational facilities. Major employers include: Baylor University, local government, Raytheon Technologies, Plantation Foods, Waco ISD, and the VA hospital. The economies in the rural areas surrounding Waco continue to be heavily influenced by the agricultural industry - primarily corn, cotton, milo, wheat, and cattle. Drought conditions and declining cattle prices in 1996 and 1998 have had a negative impact on the economy in these rural areas.

First Waco faces stiff competition in the MSA from 22 banks, numerous credit unions, and brokerage firms. No legal impediments or other factors hinder the bank's ability to provide credit. At the last CRA examination in May 1995, the bank's CRA rating was "Outstanding."

DESCRIPTION OF ASSESSMENT AREA

First Waco has designated the majority of the Waco MSA as its assessment area. The bank's assessment area includes thirty nine census tracts¹ in the Waco MSA and McLennan County. Four of these census tracts are low-income areas, eleven are moderate-income areas, twelve are middle-income areas, and eleven are upper income areas. One census tract in the bank's assessment area does not have an official census income designation because of the limited population and few households in this area; the VA hospital is located in this census tract.

The population of the entire Waco MSA was approximately 189,000 according to the 1990 census. Information from the Chamber of Commerce estimates a current population of 205,000. The population for the census tracts in First Waco's assessment area is 148,000. The estimated 1998 median family income for the Waco MSA as provided by the Department of Housing and Urban Development is \$40,300.

The following information on the bank's entire assessment area was obtained from 1990 census data.

Assessment Area Demographics	
Population	147,813
Number of Families	36,675
1990 MSA Median Family Income	\$28,953
Number of Housing Units	62,403
% Owner-Occupied Units	47%
Median Housing Value	\$49,292
% Population Age 65+ Years	13%
% Households Receiving Social Security Income	27%
% Low-Income Families	23.47%
% Moderate-Income Families	17.22%
% Middle-Income Families	21.42%
% Upper-Income Families	37.89%

For further discussion on the bank's lending performance, please refer to the following paragraphs which summarize performance in each criteria specified in the CRA regulation.

¹Census tracts are small statistical subdivisions of an MSA established by census statistical area committees. Census tracts do not cross county boundaries.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

First Waco's LTD ratio is very good, given its asset size, financial condition, and the known credit needs of the assessment area. However, since the last CRA examination, the bank's LTD ratio has declined from 94% to 74% on June 30, 1998. The majority of the decline can be attributed to more conservative credit standards due to increased losses in the bank's consumer loan portfolio. The average LTD ratio over the twelve quarters since the last examination is 84%, which compares favorably to other banks in the Waco MSA, averaging 60% over the same time period.

Lending in the Assessment Area

A substantial majority of First Waco's loans are within its assessment area. Management's reports reflect that 63% of the bank's outstanding loans are within the assessment area. An additional 13% are in outlying census tracts in the Waco MSA. Approximately 68% of the new loans in 1998 were within the assessment area. An additional 20% of the bank's new loans were in adjacent census tracts of the Waco MSA. This distribution of loans indicates the bank is committed to its local community and takes an active role in meeting credit needs.

Geographic Distribution of Loans

The geographic distribution of First Waco's loans needs improvement. Our analysis included all residential loans made since the last examination, all new loans in 1998, and an analysis by management relative to all outstanding loans. This sample revealed that the majority of the bank's loans are in the upper- and middle-income areas of bank's assessment area. The bank's loan distribution is not reflective of the assessment area demographics. The chart below reflects the distribution of the loans in our sample compared to area demographics. Although the bank's loan distribution is low in low- and moderate-income areas, its distribution of residential real estate loans (HMDA loans ²) is slightly better than other institutions in the area.

² HMDA loans include those for the purchase, refinance, and improvement of 1-4 family dwellings. Loans for the purchase and refinance of multi-family properties are also included. Information on these types of loans is collected and reported annually as required by the Home Mortgage Disclosure Act (HMDA).

Loan Distribution by Census Tract										
	Low- Income Tracts		Moderate- Income Tracts		Middle- Income Tracts		Upper- Income Tracts		Total # of Tracts	
	#	%	#	%	#	%	#	%	#	%
Area Demographic Characteristics	4	10	11	28	12	31	11	28	38	100
All Outstanding Loans 7/14/98	47	3	403	21	640	34	785	42	1875	100
New 1998 Loans	11	3	63	16	147	38	167	43	388	100
1996 Aggregate HMDA for Waco MSA	76	2	600	19	763	24	1760	55	3199	100
HMDA 1996	2	3	12	21	11	19	33	57	58	100
HMDA 1997	3	6	7	15	12	26	25	53	47	100
HMDA 3/31/98	2	9	3	14	10	45	7	32	22	100
Total HMDA	7	6	22	17	33	26	65	51	127	100

The bank's offices are not as easily accessible to individuals and businesses in the low- and moderate-income areas of Waco, which may be a factor for lower loan penetration in these areas.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

First Waco's loan portfolio reflects a reasonable distribution of consumer and residential loans among individuals of various income levels.³ The portfolio also reflects a good dispersion to businesses of different sizes. The bank's overall performance with this criteria was considered acceptable given the nature of the community, competition, and available lending opportunities.

In order to assess the bank's performance in this criteria, we reviewed HMDA information and selected a sample of consumer and business loans originated in the last year. We compared the bank's lending performance to the demographic characteristics of the community and to residential lending by other banks in the area as reported in the 1996 aggregate HMDA data. As illustrated in the following table, First Waco lends to all applicants, regardless of their income level. Most lending to low- and moderate-income individuals is centered in consumer loans.

As reflected in the chart below, lending performance to low-income individuals is slightly lower than would be expected based upon the local demographics; however, this is partially the result of

³ Income level designations are as follows:

A low-income borrower earns less than 50% of the updated 1998 Median Family Income (MFI).

A moderate-income borrower earns between 50% and 80% of the updated 1998 MFI.

A middle-income borrower earns between 80% and 120% of the updated 1998 MFI.

An upper-income borrower earns more than 120% of the updated 1998 MFI.

management's decision to tighten credit standards in the last year. Lending performance to moderate-income individuals is slightly better than would be expected. The chart below also reflects that First Waco bank has made very few HMDA loans to low- and moderate-income individuals; however, the bank's performance in 1996 was better than other institutions in the Waco MSA, as reflected in the aggregate HMDA data. Approval rates for low- and moderate-income applicants ranged from 80%-100% in 1996, 1997, and year-to-date 1998.

Loan Sample Distribution by Income Group										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total # of Families	
Area Demographic Characteristics	23%		17%		21%		38%		100%	
# of Families	8,606		6,317		7,856		13,897		36,675	
Loan Type	#	%	#	%	#	%	#	%	#	%
Consumer	6	13	10	22	12	26	17	38	45	100
1996 Aggregate HMDA Loans	135	4	419	13	626	20	1472	46	2652	83 ⁴
HMDA Loans 1996	4	7	13	22	6	10	29	50	52	100
HMDA 1997	3	6	7	15	12	26	25	53	47	100
HMDA 3/31/98	0	0	3	14	1	4	18	82	22	100
Total Consumer and HMDA Loans	13	8	33	20	31	19	90	54	166	100

First Waco originates a large volume of commercial loans, a number of which have been to "small businesses" with revenues less than \$1 million. In just 1998, the bank has originated approximately 130 commercial business-related loans totaling \$15 million. The chart on the next page reflects the results of our sample of commercial loans originated in the past year. Although a significant portion of the loans were to larger businesses, our analysis revealed that the bank makes loans to businesses of all sizes.

⁴ Income information was not available on 17% of loans reported.

Lending to Businesses of Different Sizes										
Gross Revenues \$	Less than 100,000		100,000-250,000		250,000-1,000,000		More than 1,000,000		Total	
Loan Type	#	%	#	%	#	%	#	%	#	%
Commercial	5	22	5	22	2	9	11	47	23	100

Response to Complaints

No complaints relating to CRA performance have been received by the bank.

Investment and Services

Over the past few years, First Waco has been involved in several activities designed to promote community development. In 1995, First Waco established the Waco Area Community Development Corporation (WACDC) with an initial investment of \$237,500. The primary purpose of WACDC is to promote small business development. In 1995, the CDC had completed 3 projects. Twenty-nine jobs were created/retained and thirteen small business loans were made. Since 1995, the WACDC has worked closely with a city sponsored CDC, the Community Based Development Organization (CBDO), and the Heart of Texas Business Resource Center (BRC). The CBDO's primary purpose is to create jobs for low-income and minority persons in the Empowerment Zone/Enterprise Community (EZ/EC). The EZ/EC community is a 20 square mile area encompassing the central and eastern areas of Waco, as well as portions of Bellmead Lacy-Lakeview and McLennan County. The CBDO has received federal grants and funding from local public and private resources. First Waco contributed \$60,000 to the BRC, which coordinates activities of the CBDO. Contacts at the BRC indicate that they have made nine loans since 1996. These loans have created 31 jobs and 48 part-time jobs. All but two of these loans were in low- or moderate-income census tracts. Since its establishment in late 1996, the BRC has participated in loans with area banks totaling approximately \$580,000. Contacts at the BRC state that First Waco has been one of the more active banks in its participation.

First Waco has also contributed funding and advisory services to the BRC's micro-loan program, which offers loans of \$7,500 to small, disadvantaged, and minority businesses. Year-to-date 1998, this program has made 26 loans approximating \$126,000.

First Waco has also provided financial support and advisory services for the Neighborhood Housing Services of Waco, Inc. (NHS). NHS provides to low- and moderate-income individuals, counseling services and assistance in purchasing and renovating homes. First Waco also provides an interest-free line of credit to the Waco Habitat for Humanity, which also helps to serve the housing needs of low- and moderate-income individuals.

Officers of First Waco have also been actively involved in the “Fast Track” program, which provides guidance in opening or buying a business and in the development of business plans for existing small business owners.

First Waco also offers a free checking account to all customers and lower-cost small business accounts.

Compliance with Fair Lending Laws and Regulations

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