



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

December 11, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Central Texas
Charter Number: 5850

1835 North Valley Mills Drive
Waco, TX 76710-0000

Office of the Comptroller of the Currency

SAN ANTONIO NORTH
10001 Reunion Place Suite 250
San Antonio, TX 78216-4133

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.

Institution's CRA Rating: This institution is rated "Satisfactory"
The Lending Test is rated: "Satisfactory"
The Community Development Test is rated: "Satisfactory"

The First National Bank of Central Texas' (FNBCT) lending performance is satisfactory given its size, financial condition, and the known credit needs in its assessment area (AA).

- FNBCT's loan-to-deposit (LTD) ratio is excellent and has averaged 91% for this evaluation period. Such ratio exceeds performance by other banks within its AA.
- A substantial majority of FNBCT's loans were made within its AA.
- FNBCT has demonstrated a satisfactory willingness to extend loans to individuals of varying incomes and to businesses of different sizes.
- The geographic distribution of the bank's loans within the AA is satisfactory.
- The bank's performance in providing qualified loans and services is satisfactory.
- There have been no complaints with respect to FNBCT's CRA performance.

Scope of Examination

We evaluated FNBCT's CRA performance under the intermediate/small bank procedures since our prior evaluation dated August 2004. The Lending Test review focused on commercial real estate (RE), commercial/industrial, and home mortgage loan originations from January 1, 2004, through December 31, 2006. We focused our review on these primary loan products since they represent approximately 74% of the total loan portfolio as of September 30, 2007. We also performed a Community Development Test by reviewing community development loans, services, and investments since the last CRA examination through September 30, 2007.

The bank has two AAs which are McLennan County and Hill County. Since the vast majority of the deposit and lending activity takes place in the McLennan County AA, we performed a full-scope review for this AA. A limited-scope review was performed relative to the Hill County AA.

Description of Institution

FNBCT is a \$355 million bank headquartered in Waco, Texas. The bank is 100% owned by FCT Bancshares, Inc., a one-bank holding company in Waco. FCTB is 100% owned by First Central Texas Holdings, Inc., Dover, Delaware. Total assets of the holding company as of June 30, 2007, were \$29 million. In addition to the main office, FNBCT has three additional full-service bank offices located in upper-, middle-, and moderate-income census tracts (CTs). The bank has four automated teller machines (ATMs) located in its AA. The main office and China Spring branch are located on the western side of Waco and McLennan County. The Mart branch is located in a predominantly agricultural area and the Hillsboro branch is located in a small business oriented area.

The institution's principal focus is to promote economic development through its lending programs and community involvement. FNBCT's primary lending products include commercial and industrial loans and commercial RE loans. The bank also offers residential RE and consumer loans. FNBCT participates in government-guaranteed small business loans, agricultural loans, and student loans. Total loans outstanding as of September 30, 2007, amounted to \$299 million, which represents 84% of total assets. The following table reflects a detailed breakdown of FNBCT's loan portfolio as of September 30, 2007.

| LOAN CATEGORY | \$ (000) | % |
|-------------------------------|-----------------|------------|
| Commercial Real Estate Loans | 82,050 | 27.4 |
| Commercial Loans | 78,642 | 26.3 |
| Residential Real Estate Loans | 60,757 | 20.3 |
| Consumer Loans | 29,494 | 9.9 |
| Construction and Development | 25,509 | 8.5 |
| Other | 15,356 | 5.1 |
| Secured by Farmland | 4,792 | 1.6 |
| Agricultural Loans | 2,332 | .9 |
| <i>Total</i> | <i>298,932</i> | <i>100</i> |

Bank lobby services are provided Monday through Friday at each office. Drive-through services are provided Monday through Friday at all offices; Saturday service is provided at the Hillsboro office. FNBCT has a 24-hour telephone audio response system, which allows customers to obtain account balance information. This institution also has an Internet web site (www.fnbct.com) that allows customers to obtain account balance information, transfer funds between accounts, and bill payment.

FNBCT faces strong competition from area banks, savings and loans, and investment brokerage firms. Based on its financial condition, the local economy, product offerings, competition, and prior performance, FNBCT has the ability to meet the credit needs in its community. At the last CRA examination in August 2004, FNBCT's CRA rating was "**Satisfactory.**" No legal impediments or other factors hinder the bank's ability to provide credit in its AA.

Description of Assessment Areas

FNBCT has two AAs. One is McLennan County, which includes the Waco metropolitan statistical area (MSA). The other AA is all of Hill County which is not part of an MSA. The AAs meet the requirements of the regulation and do not arbitrarily exclude low- and moderate-income (LMI) geographies. A further description of the AAs is presented below.

Demographic and Economic Data on the McLennan County Assessment Area

| DEMOGRAPHIC/ECONOMIC CHARACTERISTICS OF AA MCLENNAN COUNTY | |
|---|----------|
| Population | |
| Number of Families | 53,122 |
| Number of Households | 78,926 |
| Geographies | |
| Number of CTs | 51 |
| % Low-Income CTs | 9.8% |
| % Moderate-Income CTs | 27.4% |
| % Middle-Income CTs | 31.4% |
| % Upper-Income CTs | 31.4% |
| Median Family Income (MFI) | |
| 2000 MFI for AA | \$41,455 |
| 2006 HUD-Adjusted MFI | \$49,100 |
| 2005 HUD-Adjusted MFI | \$49,100 |
| 2004 HUD-Adjusted MFI | \$47,800 |
| Economic Indicators | |
| Unemployment Rate | 3.60% |
| 2007 Median Housing Value | \$62,261 |
| % of Households Below Poverty Level | 17.6 |

One CT is comprised entirely of a VA hospital and therefore lending opportunities in this moderate-income CT is limited.

According to the 2000 housing data as provided in the census, there are approximately 85 thousand housing units in the AA of which 56% are owner-occupied, 37% are renter-occupied, and 7% are vacant. The median year built for housing was 1970, with a median value of \$62 thousand.

Based on 2000 Census data, the McLennan County AA has a population of 214 thousand. Approximately 11% of the households in the AA are considered low-income. Moderate-income households approximate 25% of the population, while middle- and upper-income households comprise the remaining 64%. The local economy is considered stable with an unemployment rate of 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, and hospital.

We contacted the Executive Director of the Waco Community Development Corporation to obtain updated information on the AA. The community contact stated there were no known unmet credit needs. The local banks are active in the community. The community contact pointed out there was a lack of affordable housing in the Waco area.

Demographic and Economic Data on the Hill County Assessment Area

| DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA HILL COUNTY | |
|---|----------|
| Population | |
| Number of Families | 8,823 |
| Number of Households | 12,234 |
| Geographies | |
| Number of CTs | 12 |
| % Low-Income CTs | 0% |
| % Moderate-Income CTs | 16.7% |
| % Middle-Income CTs | 75.0% |
| % Upper-Income CTs | 8.3% |
| Median Family Income (MFI) | |
| 2000 MFI for AA | \$36,380 |
| 2006 HUD-Adjusted MFI | \$43,100 |
| 2005 HUD-Adjusted MFI | \$42,000 |
| 2004 HUD-Adjusted MFI | \$42,000 |
| Economic Indicators | |
| Unemployment Rate | 2.1% |
| 2007 Median Housing Value | \$54,410 |
| % of Households Below Poverty Level | 15.5 |

Hill County is mostly a rural county. The largest community in the county is the city of Hillsboro with a population of approximately 9 thousand. According to the 2000 Census housing data for Hill County, there are approximately 15 thousand housing units in the AA, of which 63% are owner-occupied, 21% are renter-occupied, and 16% are vacant. The median year built for housing was 1970, with a median value of \$54 thousand.

The Hill County AA has a population of 32 thousand. Approximately 24% of the households in the AA are low-income, 15% are moderate-income, and the remaining 61% are middle- and upper-income households. The local economy is considered stable with an unemployment rate of 2.1%.

To gather updated information on the AA and possible credit needs, we contacted the Executive Director of the Hillsboro Chamber of Commerce. The major area employers include the Hillsboro Outlets, Hillsboro ISD, the City of Hillsboro, and Hill College. The contact indicated they are not aware of any unmet credit needs and further stated that area banks are active in the community and responsive to local credit needs.

Conclusions with Respect to Performance Tests

LENDING TEST

FNBCT's performance under the Lending Test is rated "Satisfactory." Our review focused on three areas of significant lending: commercial RE lending, commercial and industrial lending, and 1-4 family residential lending.

Loan-To-Deposit Ratio

FNBCT's LTD ratio is excellent given its asset size, financial condition, loan growth since our last evaluation, and lending opportunities within its AA. The average LTD ratio has increased from 84% as of December 31, 2003, to 91% as of September 30, 2007. Such performance is consistent and reasonable given the available loan demand and when compared with other banks headquartered in McLennan County. The average LTD ratio of similarly situated banks ranged from a low of 62% to a high of 76%.

The asset size and average LTD ratio for FNBCT and five competing banks during the evaluation period are listed below.

| INSTITUTION | ASSETS AS OF 9/30/07(*) | AVERAGE LTD RATIO % (**) |
|--|----------------------------|-----------------------------|
| Central National Bank | 471,079 | 77.1 |
| American Bank NA | 305,334 | 71.8 |
| Texas First State Bank | 212,075 | 61.8 |
| Community Bank & Trust | 363,964 | 76.3 |
| Independent Bank | 198,042 | 75.4 |
| <i>First National Bank of Central Texas</i> | <i>355,281</i> | <i>91.2</i> |

* Asset sizes of institutions are in thousands (000's)

** The average LTD ratio for the four comparable banks and FNB is for the period from January 2004 through September 2007.

Lending In Assessment Area

The bank's lending performance to borrowers within the McLennan County AA exceeds the standards for satisfactory performance. A substantial majority of loans were made within this AA. In order to assess performance for this criterion, we reviewed a sample of 31 commercial RE and 28 commercial/industrial loans originated in 2004 through 2006. We also used aggregate HMDA data for residential loan originations within the same time period. Our analysis determined that 91% of the number and 85% of the dollar amount of the loans reviewed were made within the AA.

| TOTAL LOANS REVIEWED MCLENNAN COUNTY ASSESSMENT AREA | | | | | | | | |
|---|--------------------|--------------------|----------------------|--------------------|------------------------|-------------------|---------------------|--------------------|
| LOAN TYPE | In Assessment Area | | | | Out of Assessment Area | | | |
| | # | % | \$ (000s) | % | # | % | \$ (000s) | % |
| Commercial Real Estate | 27 | 87.1 | 8,642 | 73.6 | 4 | 12.9 | 3,102 | 26.4 |
| Commercial/ Industrial | 27 | 96.4 | 2,083 | 98.5 | 1 | 3.6 | 31 | 1.5 |
| Residential Real Estate | 353 | 91.2 | 37,973 | 87.6 | 34 | 8.8 | 5,356 | 12.4 |
| <i>Total</i> | <i>407</i> | <i>91.3</i> | <i>48,698</i> | <i>85.2</i> | <i>39</i> | <i>8.7</i> | <i>8,489</i> | <i>14.8</i> |

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

McLennan County Assessment Area

The loan portfolio reflects a satisfactory distribution of residential loans to borrowers of different income levels and commercial RE and commercial/industrial loans to businesses of different sizes within this AA.

While the number of residential RE loans to LMI families is below AA demographics, the distribution is considered satisfactory. The bank's residential lending opportunities are limited by the low supply of affordable housing in the Waco area. According to management and supported by community contact input, there are a limited number of homes available in the AA at selling prices that LMI families could qualify for.

| RESIDENTIAL REAL ESTATE MCLENNAN COUNTY ASSESSMENT AREA | | | | | | | | |
|--|----------------|----------------|-----------------|----------------|----------------|----------------|----------------|----------------|
| <i>Borrower Income Level</i> | <i>LOW</i> | | <i>MODERATE</i> | | <i>MIDDLE</i> | | <i>UPPER</i> | |
| % of AA Families | 20.7 | | 17.5 | | 21.4 | | 40.4 | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| Total | 5.3 | 2.3 | 9.0 | 3.8 | 17.0 | 10.7 | 68.7 | 83.2 |

A small business is defined as a business with gross revenues of less than \$1 million. The income distribution of commercial RE and commercial/industrial loans to small businesses is below AA demographics. However, based on discussions with management concerning available lending opportunities in this AA and review of outstanding loan reports, the bank's distribution of loans to small businesses is satisfactory.

| COMMERCIAL REAL ESTATE MCLENNAN COUNTY ASSESSMENT AREA | | |
|---|---------------------|------------------------|
| <i>Business Revenues</i> | <i>≤\$1,000,000</i> | <i>>\$1,000,000</i> |
| % of AA Businesses | 92.6 | 7.4 |
| % of Bank Loans in AA # | 85.2 | 14.8 |
| % of Bank Loans in AA \$ | 70.1 | 29.9 |

| COMMERCIAL AND INDUSTRIAL MCLENNAN COUNTY ASSESSMENT AREA | | |
|--|---------------------|------------------------|
| <i>Business Revenues</i> | <i>≤\$1,000,000</i> | <i>>\$1,000,000</i> |
| % of AA Businesses | 92.6 | 7.4 |
| % of Bank Loans in AA # | 74.1 | 25.9 |
| % of Bank Loans in AA \$ | 60.8 | 39.2 |

Geographic Distribution of Loans

McLennan County Assessment Area

The geographic distribution of residential and commercial RE loans and commercial and industrial loans to borrowers located in LMI census tracts is satisfactory given the area demographics and available lending opportunities.

| RESIDENTIAL REAL ESTATE MCLENNAN COUNTY ASSESSMENT AREA | | | | | | | | |
|--|----------------|----------------|-----------------|----------------|----------------|----------------|----------------|----------------|
| <i>CT Income Level</i> | <i>LOW</i> | | <i>MODERATE</i> | | <i>MIDDLE</i> | | <i>UPPER</i> | |
| % of AA Owner-Occupied | 4.8 | | 18.7 | | 36.6 | | 39.9 | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| Total | 3.1 | .9 | 12.1 | 4.3 | 29.1 | 30.7 | 55.7 | 64.1 |

| COMMERCIAL REAL ESTATE MCLENNAN COUNTY ASSESSMENT AREA | | | | | | | | |
|---|----------------|----------------|-----------------|----------------|----------------|----------------|----------------|----------------|
| <i>CT Income Level</i> | <i>LOW</i> | | <i>MODERATE</i> | | <i>MIDDLE</i> | | <i>UPPER</i> | |
| % of AA Businesses | 4.6 | | 29.6 | | 28.8 | | 37.0 | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| Total | 3.7 | 9.7 | 22.2 | 18.3 | 33.3 | 28.3 | 40.8 | 43.7 |

| COMMERCIAL AND INDUSTRIAL MCLENNAN COUNTY ASSESSMENT AREA | | | | | | | | |
|--|----------------|----------------|-----------------|----------------|----------------|----------------|----------------|----------------|
| <i>CT Income Level</i> | <i>LOW</i> | | <i>MODERATE</i> | | <i>MIDDLE</i> | | <i>UPPER</i> | |
| % of AA Businesses | 4.6 | | 29.6 | | 28.8 | | 37.0 | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| Total | 3.7 | 1.9 | 33.3 | 55.8 | 33.3 | 29.2 | 29.7 | 13.1 |

Conclusions for Areas Receiving Limited Scope Reviews

We performed a limited scope review for the Hill County AA. The Hillsboro branch deposits totaled approximately \$29.4 million as of November 30, 2007. Netting out public funds, the core deposit base was \$18.9 million or 6% of the bank's total deposits. Loans for this branch office as of November 30, 2007, totaled approximately \$5.7 million or 2% of the bank's total loan portfolio. The bank's lending activity in this AA is reasonable given the area demographics, limited lending opportunities, and the high level of competition from other financial institutions in the county. The community contact stated this bank is active in meeting local credit needs.

Responses to Complaints

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

COMMUNITY DEVELOPMENT TEST

Overall, CD loans and services provided by FNBCT are satisfactory given the bank's size, financial condition, and credit needs of the community.

Number and Amount of Community Development Loans

FNBCT has worked with the Waco Community Development Corporation (WCDC) to provide affordable housing in LMI areas. Since late 2003, FNBCT has made 6 loans to the WCDC totaling approximately \$282 thousand. These loans have been used to build houses in a low-income CT in the city of Waco. The bank has also made cash donations to this organization totaling \$13 thousand.

Extent to Which the Bank Provides Community Development Services

In addition to working with the WCDC, FNBCT has also worked with Habitat for Humanity (HH). The bank has donated six lots to HH to be used to build homes for LMI families. The total value of the lots was approximately \$40 thousand. FNBCT has also made cash donations to HH.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.