



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 14, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Mc Gregor
Charter Number: 4076

401 South Main
Mc Gregor, TX 76657

Office of the Comptroller of the Currency

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 upon 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 83% during this evaluation period, which exceeds the local peer bank average of 76%.
- The bank’s level of lending within the AA demonstrates an excellent level of performance as 97% of the number and 95% of the dollar volume of the loans originated within the bank’s AA.
- Extensions of credit to borrowers of different incomes as well as to small businesses meet the standards for satisfactory performance. Low- and moderate-income families represent 38% of the AA, with low- and moderate-income households representing 40%. Based on our loan sample, 32% of residential real estate loans were made to low- and moderate-income families and 55% of consumer loans were made to low- and moderate-income households.
- Extensions of credit to borrowers located in the low- to moderate-income census tract (CT) areas are low.
- There have been no complaints with respect to FNB’s performance under the Community Reinvestment Act (CRA).

SCOPE OF EXAMINATION

We used small-bank CRA procedures for our examination. We reviewed data going back to the prior CRA examination conducted in 2003. Our loan samples included residential real estate, commercial real estate and consumer loans originated since the last CRA examination through October 31, 2007. We reviewed residential real estate, as this represented the single largest category of loans that the bank makes (44% of total loans as of September 31, 2007). We also reviewed commercial real estate loans (20% of total loans) and consumer loans (11% of total loans). 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 is a \$92 million financial institution headquartered on Main Street, in the downtown district of McGregor. The city of McGregor is 15-miles southwest of Waco, Texas, and approximately 120-miles equidistant between the Dallas Metroplex and Austin.

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’s primary focus is to promote economic development in its AA through its lending programs. Its market niche is residential real estate, small business, agricultural, and consumer loan products. The following table illustrates the distribution of the bank’s loan portfolio by dollar amount and percentage of total loans, as of September 31, 2007.

Loan Type	Dollar Amount \$ (000)	% of Total Loans
Real Estate Residential (1-4)	33,840	44.3
Real Estate Nonfarm Nonresidential	14,922	19.5
Consumer	8,141	10.7
Commercial and Industrial	8,119	10.6
Real Estate Construction	5,707	7.5
Agricultural Production	2,962	3.9
Real Estate Farmland	1,315	1.7
Real Estate Multifamily Residential	846	1.1
Other	536	0.7
Total	\$76,388	100%

DESCRIPTION OF ASSESSMENT AREA(S)

FNB McGregor’s AA includes a total of 52 census tracts (CTs). The bank’s AA encompasses all of McLennan County and one CT in the eastern portion of Coryell County. Communities included in the AA are McGregor, Waco, Woodway, Moody, Crawford, and Oglesby. The entire population of the bank’s AA totals 220,972. Of the 54,938 families located within the AA, 20.5% are designated as low-income and 17.5% as moderate-income families. The remaining AA is comprised of 21.5% middle-income and 40.5% upper-income families. The economy of the overall AA is growing, specifically the city of Waco, which has experienced an increase in outside capital investment. Major employers in the AA include L 3 Communications, Smead Manufacturing, Ferguson Enterprises, and the McGregor Independent School District (ISD).

With the addition of the new branch location, FNB’s AA now encompasses the high-growth communities of Hewitt and Woodway. As Waco residents move out of the city into the suburbs, demand for both mortgage and commercial loans within those communities has increased. The effects of meeting this loan demand was reflected in both the LTD ratio and lending in the AA tests performed during this analysis. Refer to the following charts for detail.

Specific demographic data for the bank’s AA is listed detailed below.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	54,986
Number of Households	81,255
<i>Geographies</i>	
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%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$41,446
2007 HUD-Adjusted MFI	\$49,094
2006 HUD-Adjusted MFI	\$49,094
2005 HUD-Adjusted MFI	\$47,790
<i>Economic Indicators</i>	
Unemployment Rate	3.56%
2007 Median Housing Value	\$62,458
% of Households Below Poverty Level	17%

FNB’s AA is competitive, with primary competition stemming from Extraco Banks, N.A., and Rocket Federal Credit Union as well as Waco-based financial institutions. 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 could 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 low- to moderate-income 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 the bank’s ability to provide credit within its AA. FNB received a “Satisfactory” rating at its previous CRA examination conducted in August 2003.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Based on our analysis and recognition of the demographic characteristics of the bank’s AA, we conclude that management is effectively meeting the credit needs of the community, including low- and moderate-income individuals, consistent with its resources and capabilities. In making this determination, we utilized internally generated management reports, as well as a sample of 60 residential real estate, 20 commercial real estate and 20 consumer loans originated since the last CRA evaluation period.

Loan-to-Deposit Ratio

The bank’s LTD ratio is very good, given its asset size, financial condition, and lending opportunities. Since the last CRA examination, the LTD ratio has increased steadily from 75.8% at December 31, 2003 to 89.6% at September 30, 2007. FNB’s average LTD ratio over the past 16 quarters is 83.1%, higher than the average 75.8% LTD ratio of four similarly situated banks headquartered in neighboring areas. The asset size and average LTD ratios for FNB and its competing banks are listed below.

Institution	Assets As Of September 30, 2007	Average LTD Ratio %
Fidelity Bank of Texas - Waco	85,898	77.5
First Community Bank Central Texas – Meridian	117,855	61.4
First National Bank of Central Texas - Waco	355,281	91.1
Independent Bank - Waco	198,042	73.3
FNB McGregor	92,227	83.1

Lending in Assessment Area

A substantial majority of the bank’s loans are made within its AA. An analysis of the lending patterns within the AA was performed, using internal reports provided by management, visual observations from county maps, and our lending samples. Our loan samples indicate that FNB’s level of lending within its AA is excellent.

TOTAL LOANS REVIEWED								
	<i>In Assessment Area</i>				<i>Out of Assessment Area</i>			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
1-4 Family	60	100	980	100	0	0	0	0
Commercial Real Estate	20	91	3,437	93	2	9	260	7
Consumer	20	95	155	97	1	5	5	3
Total Reviewed	100	97	4,572	95	3	3	265	5

Lending to Borrowers of Different Incomes

FNB’s loan portfolio reflects an overall satisfactory level of residential real estate and consumer lending to low- and moderate-income individuals. Based on 2000 Census data, low- and moderate-income families represented a combined total of 38% of total families within the AA. Based on the sample of residential real estate loans, lending to low- and moderate-income families equaled 32% of the sample, which is slightly below AA demographics. However, consumer lending to both low- and moderate-income households equaled 55%, exceeding the AA demographics of 40%.

RESIDENTIAL REAL ESTATE								
<i>Borrower Income Level</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Families</i>	20.52		17.55		21.48		40.45	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	11.67%	5.41%	20.00%	14.33%	25.00%	23.40%	43.33%	56.86%

CONSUMER LENDING								
<i>Borrower Income Level</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Households</i>	25.24		15.08		17.93		41.75	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	20.00%	5.81%	35.00%	30.32%	20.00%	11.61%	25.00%	52.26%

Lending to Businesses of Different Sizes

Small businesses are defined as having annual gross revenues of \$1 million or less. The bank’s record of lending to small businesses is good and is in line with the percentage of businesses of this type located within its AA. The following chart reflects the results of our selected sample of commercial real estate.

BORROWER DISTRIBUTION OF LOANS TO BUSINESSES - COMMERCIAL		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	93	7
% of Bank Loans in AA #	95	5
% of Bank Loans in AA \$	99	1

Geographic Distribution of Loans

During the previous CRA examination conducted in August 2003, an analysis of the bank’s geographic distribution of loans was not performed at that time. This analysis would not have provided any meaningful information because there were no CTs identified as low- and moderate-income. Since that time, FNB has opened a new branch located just outside the city limits of Waco, and its revised AA included new CTs, some of which are low- and moderate-income.

Based solely on the level of penetration to low- and moderate-income areas, FNB’s performance seems low. However, the entire low- and moderate-income CTs are located roughly in the center of McLennan County. The new branch is located appropriately 10-15 miles from these low- and moderate-income CTs. Competition is tight and includes credit unions and numerous other banks. Additionally, the latest branch was opened fairly recently in 2006. In light of these factors, we consider the geographic distribution of loans to be satisfactory.

RESIDENTIAL REAL ESTATE								
<i>Census Tract</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Owner-Occupied</i>	4.61		17.96		38.99		38.43	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	1.67%	0.61%	8.33%	3.58%	61.67%	53.97%	28.33%	41.84%

CONSUMER LENDING								
<i>Census Tract</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Households</i>	10.76		24.46		33.92		30.85	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	0.00%	0.00%	5.00%	9.68%	70.00%	56.77%	25.00%	33.55%

Responses to Complaints

FNB 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 September 2001. 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.