



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**August 16, 2004**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First National Bank of Central Texas  
Charter Number 5850**

**1835 North Valley Mills Drive  
Waco, TX 76702**

**Comptroller of the Currency  
Austin Field Office  
8310 Capital Of Texas Highway North Suite 250  
Austin, TX 78731**

**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 First National Bank of Central Texas’ (FNB) 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 86% for this evaluation period. Such ratio exceeds activity reflected by other banks in the local and Central Texas areas.
- A substantial majority of FNB’s loans are within its AA.
- FNB has demonstrated a satisfactory willingness to extend loans to individuals of varying incomes and strong willingness to extend loans to businesses of different sizes.
- The geographic distribution of the bank’s loans within the AA is satisfactory.
- Qualified investments and Community Development Services are limited.
- There have been no complaints with respect to FNB’s CRA performance.

## **DESCRIPTION OF INSTITUTION**

FNB is a \$263 million (MM) bank headquartered in Waco, Texas, approximately 100 miles north of Austin, Texas. The bank is 100% owned by FCT Bancshares, Inc. (FCTB), a one-bank holding company (HC) located in Waco. FCTB is 100% owned by First Central Texas Holdings, Inc., Dover, Delaware. Total assets of the HC as of December 31, 2003 were \$18.8MM. Prior to the HC’s acquisition of FNB in 1995, the bank was headquartered in Mart, Texas. In addition to the main office, FNB 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 Counties. 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. FNB’s primary lending products include commercial and commercial real estate including small business. The bank also offers residential real estate, and consumer loans. FNB participates in government guaranteed small business loans, agricultural loans, and student loans. Total loans outstanding as of June 30, 2004, amounted to \$218MM, which represents 82% of total assets. The following table reflects a detailed breakdown of FNB’s loan portfolio as of June 30, 2004.

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Commercial Loans	62,426	28.7
Commercial Real Estate Loans	37,830	17.4
Residential Real Estate Loans	74,532	34.3
Consumer Loans	41,033	18.8
Agricultural Loans	1,694	0.8
<b>Total</b>	<b>217,515</b>	

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. FNB 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](http://www.fnbct.com)), which allows customers to obtain account balance information, transfer funds between accounts, and bill payment.

FNB 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, FNB does have the ability to meet the credit needs in its community. At the last CRA examination in October 1999, FNB'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 AREA

FNB's AA includes all of McLennan and Hill Counties, which includes the Waco Metropolitan Statistical Area (MSA) and a number of smaller communities. This area is made up of 63 CTs, which surround and include each banking office. One CT (0022.00) is comprised entirely of institutionalized persons and does not have a designated income level. Specific demographic and economic data for this AA is listed in the table below.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<b><i>Population</i></b>	
Number of Families	61,945
Number of Households	91,160
<b><i>Geographies</i></b>	
Number of MSAs	63
% Low-Income MSAs	8
% Moderate-Income MSAs	25
% Middle-Income MSAs	40
% Upper-Income MSAs	17
<b><i>Median Family Income (MFI)</i></b>	
2000 MFI for AA	40,518
2003 HUD-Adjusted MFI	44,357
<b><i>Economic Indicators</i></b>	
Unemployment Rate	3.00
2002 Median Housing Value	61,106
% of Households Below Poverty Level	17.00

This area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income (LMI) geographies. A further description of the AA is presented below.

According to the 2000 housing data as provided in the census, there are 99 thousand (M) housing units in the AA of which 57% are owner occupied, 35% are renter occupied, and 8% are vacant. The median year built for housing was 1970, with a median value of \$61M.

Based on 2000 Census data, the AA has a combined population of 246M. Approximately 10% of the households in the AA are considered low-income. Moderate-income households approximate 23% of the population, while middle- and upper-income households comprise the remaining 67%. The local

economy is considered stable with an unemployment rate of 3%. The largest single industry in Waco is higher education with Baylor University, Texas State Technical College, McLennan Community College, and Hillsboro Community College. Other major employers include the health care industry, local government, hospital, light manufacturing, and distribution centers. Income data from the 2000 census revealed that the median family income for this area is 41M. Updated 2003 information indicates that the median family income has increased to 44M.

In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted one community leader during this examination. The contact was the Executive Director of the Waco Community Development Corporation (WCDC). In addition, community contacts by the office over the past 12 months, within the City of Waco, were also used in this analysis. These contacts indicated that the local economy is considered stable.

Banking products are considered adequate and readily available. These contacts stressed the need for affordable housing and rental properties for LMI families within the AA. The WCDC contact mentioned the need for a full service branch to be located in the low-income areas of East Waco.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNB's LTD ratio is excellent given its asset size, financial condition, loan growth since our last evaluation, and lending opportunities within its AA. Since the last CRA examination, the LTD ratio has increased from 84% on September 30, 1999, to 91% on June 30, 2004. The average LTD ratio over the past 20 quarters was 85%, which reflects an increase from an average 81% during the previous examination. Such performance is consistent and reasonable given the available loan demand and when compared with other banks headquartered in McLennan County.

The asset size and LTD ratio for FNB and four competing banks during this period are listed below.

<b>Institution</b>	<b>Assets as of 12/31/03(*)</b>	<b>Average LTD Ratio % (**)</b>
Central National Bank	394,000	75.59
American Bank NA	240,000	72.16
Texas First State Bank	151,000	77.36
Community Bank & Trust	266,000	72.10
<b><i>First National Bank of Central Texas</i></b>	<b><i>260,000</i></b>	<b><i>83.78</i></b>

\* 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 September 1999 through December 2003.

### Lending in Assessment Area

A substantial majority of FNB's loans were made within its AA. In order to assess performance for these criteria, we reviewed a sample of 42 commercial, 41 residential, and 35 consumer loans originated in 2002 through 2004. Our analysis determined that 92% of the number and 86% of the dollar amount of the loans sampled were made within the AA. More specifically, we determined that 95% of the

number and 95% of the dollar amount of commercial loans were made within FNB's AA. We determined that 90% of the number and 79% of the dollar amount of residential loans were in the bank's AA. Finally, we determined that 89% of the number and 71% of the dollar amount of consumer loans were made within the AA.

TOTAL LOANS REVIEWED								
LOAN TYPE	In Assessment Area				Out Of Assessment Area			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial Loans	40	95	4,315	95	2	5	225	5
Residential Loans	37	90	2,373	79	4	10	622	21
Consumer Loans	31	89	1,164	71	4	11	483	29
Total	108	92	7,852	86	10	8	1,330	14

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

The loan portfolio reflects a satisfactory distribution of residential, consumer, and commercial loans among individuals of various income levels and businesses of different sizes within the AA. In order to assess this bank's performance within this AA, we sampled 40 commercial, 37 residential, and 31 consumer loans originated in 2002 through July 2004.

Our sample failed to identify any residential or consumer loans made to low-income families or households. According to management, and supported with Waco residential sale price information and community contact input, there are a limited number of homes available in the AA at selling prices that LMI families could qualify for. Also, with the location of branch offices and competition from finance companies and pawnshops, opportunities to attract LMI borrowers are limited. Products and services at competitive rates are available.

Our analysis reflects a satisfactory residential and consumer loan penetration to LMI area families and households, given the demographics of the area and location of bank offices. Based on the census data, 20% of AA families are low-income and 18% are moderate-income. Our review of residential loans determined that 0% of residential loans originated were made to low-income families and 12% were made to moderate-income families. Census data also reflects 10% of AA households are low-income and 23% are moderate-income. Again, our review reflected no loans to low-income households and 6% to moderate-income households.

The following charts reflect the results of our sample of residential and consumer loans originated in FNB's AA.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	20.46		17.53		21.47		40.53	
	% of Number	% of Amount						
Total	0.0	0.0	11.8	7.6	23.5	21.4	73.5	71.0

<b>CONSUMER</b>								
Borrower Income Level	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
% of AA Households	10.0		23.0		38.0		29.0	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	0.0	0.0	3.5	2.5	10.3	8.0	86.2	89.5

FNB originates a significant number of commercial loans, the vast majority of which have been made to “small businesses with revenues less than 1MM.” Management continues to focus on providing loans that will enhance the local economy. The following chart reflects our analysis of 40 commercial real estate loans made from 2002 through July 2004.

<b>BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES</b>		
<b>Business Revenues</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>
% of AA Businesses *	72	6
% of Bank Loans in AA #	82	18
% of Bank Loans in AA \$	76	24

\* 22% of businesses in the AA did not report income for census data reporting

### **Geographic Distribution of Loans**

The geographic distribution of FNB’s loan is satisfactory given the demographics of the AA. Our analysis included a sample of 40 commercial, 37 residential, and 29 consumer loans originated during 2002 through July 2004.

FNB’s geographic distribution of residential and consumer loans is satisfactory and consistent with the AA demographics of the LMI CTs and bank office locations. Our initial analysis appeared to indicate that the geographic distribution of consumer loans in the low CTs did not reflect the make-up of the bank’s AA. Of the 63 CTs that are applicable to FNB’s AA, five tracts or 8% are considered low-income. Our loan sample revealed that one consumer loan was made within the low-income CTs. However, further analysis revealed that limited lending opportunities and physical restrictions of these areas contribute to the lack of consumer loan penetration into these low-income CTs. Two of these tracts represent commercial business areas with a third tract located adjacent to Baylor University, which consists mostly of student housing. The fourth tract represents the location of Texas State Technical College. Consumer lending penetration in the moderate-income CTs is satisfactory given bank office locations.

<b>RESIDENTIAL REAL ESTATE</b>								
Census Tract Income Level	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
% of AA Census Tracts	7.9		25.4		39.7		27.0	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	0.0	0.0	8.3	3.9	50.0	35.6	41.7	60.5

<b>CONSUMER</b>								
Census Tract Income Level	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
% of AA Census Tracts	7.9		25.4		39.7		27.0	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	3.2	1.5	6.5	6.9	41.9	46.7	48.4	44.9

<b>BUSINESS LOANS</b>								
Census Tract Income Level	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
% of AA Census Tracts	7.9		25.4		39.7		27.0	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	0.0	0.0	30.0	37.6	47.5	19.2	22.5	43.2

### **Qualified Investments and Community Development Services**

FNB works with the Neighborhood Housing Services of Waco (NHC) to identify and assist LMI borrowers in obtaining down payment assistance through this organization. Since the previous examination, FNB has helped several LMI borrowers obtain approval for down payment assistance and funded loans through the NHC.

### **Responses to Complaints**

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

### **Fair Lending or Other Illegal Credit Practices Review**

An analysis of 2000 through July 2004 public comments and consumer complaint information was performed according to the OCC's risk-based fair lending approach. Based on its analysis of information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. We found no evidence of illegal discrimination or other illegal credit practices in the limited sampling performed during this evaluation.