



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 7, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Incommons Bank, National Association
Charter Number 12190

301 East Commerce Street
Mexia, TX 76667

Office of the Comptroller of the Currency

Dallas Field Office
225 E. John Carpenter Freeway, Suite 500
Irving, TX 75062

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.

Incommons Bank, National Association's lending performance reflects a satisfactory response to credit needs in its community. Factors that support the overall rating include:

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A substantial majority of loans were made to borrowers located in the bank's AA.
- The distribution of borrowers, given the demographics of the AA, reflects reasonable penetration among borrowers of different income levels and businesses of different sizes.
- There have been no complaints with respect to Incommons Bank's CRA performance.

SCOPE OF EXAMINATION

Incommons Bank was evaluated under the Small Bank Community Reinvestment Act examination procedures which include a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities.

The scope of the CRA examination covers the time period from the previous Performance Evaluation (PE) to the start date of the current evaluation. The dates of the evaluation period are October 23, 2006 to May 7, 2012. The bank's assessment area (AA) includes three contiguous counties: Freestone, Limestone, and McLennan. Because McLennan County houses the Waco, TX MSA, we evaluated it as a separate AA for the purposes of this examination. That is, our analysis was conducted as though there were two separate AA's. The first consists of Freestone/Limestone Counties, which accounts for the main bank in Mexia, TX, and branches in Fairfield and Coolidge, TX. The second is McLennan County, which houses the Waco, TX (Waco MSA) branch. We identified the primary product of Freestone/Limestone Counties to be residential loans. The primary product of McLennan County was identified as commercial loans. We were able to evaluate the residential lending performance in Freestone/Limestone Counties using Home Mortgage Disclosure Act (HMDA) data, as Incommons Bank is a HMDA reporter. In order to evaluate commercial lending performance in McLennan County, we selected a sample of twenty commercial loans originated in the AA (within McLennan County) since the beginning of 2010. Our testing sample also included one commercial loan made outside the AA.

In evaluating the bank's loan-to-deposit ratio, we used a comparison of five similarly situated banks over the prior twenty-one quarters (since the prior CRA examination). These banks were selected for analysis based on their similar size and proximity to Incommons Bank.

DESCRIPTION OF INSTITUTION

Incommons Bank, N.A. (Incommons) is headquartered in Mexia, Texas. As of March 31, 2012, Incommons had total assets of \$99.7 million. Incommons is wholly owned by its holding company, Bi-Stone Bancshares, Inc. Incommons is the holding company's only subsidiary. The holding company is owned primarily by individuals in Mexia and the surrounding area. Aside from the main bank, three branches exist throughout McLennan, Limestone, and Freestone Counties. An automated teller machine is located at every location except for the Coolidge branch. Incommons has no offsite automated teller machines. Incommons has traditionally followed a conservative growth strategy. No branches were opened and none closed during the evaluation period. Incommons offers a full range of deposit and loan products and services commensurate with its size and having a focus on residential and commercial lending. The bank's primary competition consists of community banks and branches of large national banks, which operate within the bank's assessment area (AA).

As of March 31, 2012, net loans represent 65 percent of total assets. A summary of the loan portfolio is as follows:

Loan Portfolio Summary by Loan Product March 31, 2012		
Loan Category	Dollar Volume \$(000)	% of Total Loans
Residential (owner occupied)	28,758	43.7
Commercial	26,487	40.2
Consumer	6,181	9.4
Farm and Agriculture	4,217	6.4
Other	212	0.3
Total	65,855	100.0

Source: March 31, 2012, Consolidated Report of Condition

At the prior CRA examination, dated October 23, 2006, a satisfactory rating was assigned. There are no legal or financial factors impeding the bank's ability to help meet the credit needs of the AA.

DESCRIPTION OF ASSESSMENT AREAS

Incommons AA consists of three contiguous counties: McLennan, Freestone, and Limestone. The bank has locations in Mexia (main), Waco, Fairfield, and Coolidge, all within the AA. The AA consists of whole counties with no arbitrary exclusions of census tracts or portions of census tracts. There is no evidence of illegal discrimination or arbitrary exclusion of low-moderate income areas. The McLennan portion of the AA falls in the Waco MSA, while Limestone and Freestone Counties are non-MSA. For the purpose of our lending analysis, we reviewed McLennan County and Freestone/Limestone Counties as two separate AAs.

Mexia, TX, where the bank has its main location, is located west of Interstate Highway 45, approximately 30 miles south of Corsicana, TX and 40 miles east of Waco, TX. According to the U.S. Census Bureau, the Freestone/Limestone AA (non-MSA) has a population of 39,918. The population for the McLennan AA (Waco MSA) is 213,517. The economic condition in the AA is characterized as relatively stable. The HUD-adjusted median family income for the AA is \$38,519 for Freestone/Limestone Counties and \$43,454 for McLennan County. There are limited employment opportunities in Mexia. The largest employers include Mexia State School and Mexia Independent School District. There are more employment opportunities in Waco, which houses larger businesses and Baylor University.

The following tables contain a summary of economic and demographic data for the AA:

Demographic Information for Freestone/Limestone Counties					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	15	0%	6.67%	73.33%	20.0%
Population by Geography	39,918	0%	4.16%	80.88%	14.96%
Owner Occupied Housing Units by Geography	17,863	0%	3.65%	77.85%	18.50%
Businesses by Geography	4,295	0%	2.30%	78.98%	18.72%
Farms by Geography	238	0%	0.84%	77.31%	21.85%
Family Distribution by Income Level	10,320	20.44%	17.62%	19.34%	42.60%
Household Distribution by Income Level	14,496	25.02%	16.29%	16.75%	41.94%
Census Median Family Income (MFI)					
		\$38,519	Median Housing Value	\$50,628	
HUD – Adjusted MFI: 2011		\$38,519	Households Below the Poverty Level	16.58%	
HUD – Adjusted MFI: 2010		\$38,519	Unemployment Rate	2.55%	
HUD – Adjusted MFI: 2009		\$38,519			

Source: 2011 Business Geodemographic Data; 2000 U.S. Census Data

Demographic Information for McLennan County					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	51	9.81%	27.45%	31.37%	31.37%
Population by Geography	213,517	10.95%	25.71%	31.10%	32.24%
Owner Occupied Housing Units by Geography	47,463	4.80%	18.68%	36.55%	39.97%
Businesses by Geography	21,430	3.94%	24.81%	28.32%	42.93%
Farms by Geography	1,076	1.39%	8.74%	47.30%	42.57%
Family Distribution by Income Level	53,122	8.07%	22.75%	33.18%	36.00%
Household Distribution by Income Level	78,926	11.08%	25.18%	31.97%	31.77%
Census Median Family Income (MFI)					
		\$43,454	Median Housing Value	\$62,261	
HUD – Adjusted MFI: 2011		\$43,454	Households Below the Poverty Level	17.63%	
HUD – Adjusted MFI: 2010		\$43,454	Unemployment Rate	6.7%	
HUD – Adjusted MFI: 2009		\$43,454			

Source: 2011 Business Geodemographic Data; 2000 U.S. Census Data; U.S. Unemployment Data search

We held a discussion with a community contact who is the president of the Mexia Economic Development Corporation (MEDC). The contact indicated that he believes small business lending to be the loan type that offers the most participation opportunity for local financial institutions. While the bank’s primary product in the area is residential mortgages, the contact stated that he believes Incommons participation in the community to be strong. He stated that Incommons actively participates in community and credit-related projects and is very proactive in developing relationships and offering assistance when community development opportunities, activities, and events materialize.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Incommons has demonstrated satisfactory performance in meeting the credit needs of its AA. We focused our review on the primary lending products originated since the previous CRA examination. The primary product for Freestone/Limestone Counties is residential loans, while the primary product for McLennan County is commercial loans. We analyzed the bank’s residential lending in Freestone/Limestone using HMDA data. For the commercial loans, we pulled and tested a sample of commercial loans originated at the Waco (McLennan County) branch since 2010. In both cases, the objective of our analysis was to determine the extent of lending within the AA, the distribution of loans by borrower income level or business size, and the geographic distribution of loans in the AA.

Loan-to-Deposit Ratio

Incommons loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, and AA credit needs. The bank had a quarterly average LTD ratio of 70.66 percent over the twenty one quarters since the last CRA examination. This ratio reasonably compares with other financial institutions of similar size, location, and product offerings. A summary of similarly situated institutions is detailed below:

Institution	Assets as of 12/31/11 (\$000s)	Average Quarterly LTD Ratio as of 12/31/11
First National Bank of McGregor, McGregor, TX	117,587	94.87%
Fidelity Bank of Texas, Waco, TX	80,491	76.72%
Incommons Bank, Mexia, TX	99,700	70.66%
Farmers State Bank, Groesbeck, TX	126,744	44.72%
Pointwest Bank, West, TX	80,859	34.10%
The State National Bank in West, West, TX	60,680	24.80%

Source: Call Report Data

Incommons ranks third among the similar area banks used for comparison. The average LTD ratio for the other five banks over the same period of time was 55.04 percent. Given the size of Incommons and the amount of loan demand in the area, the LTD ratio of the bank is considered satisfactory.

Lending in Assessment Area

Based on our analysis of HMDA data on residential loans for Freestone/Limestone Counties and our sample of 21 commercial loans for McLennan County, a substantial majority of both the number and volume of loans originated during the review period are inside the bank’s AA. By number, 88 percent of the loans were originated in the AA. By dollar volume, 84.4% of the loans were originated in the AA. The following table reflects the distribution of loans, by number and dollar volume, which originated inside and outside the AA.

Lending in Freestone/Limestone and McLennan County AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	97	86.61	15	13.39	112	10,700	89.75	1,222	10.25	11,922
Home Improvement	10	90.91	1	9.09	11	336	97.11	10	2.89	346
Refinance	49	87.50	7	12.50	56	4,677	69.76	2,027	30.24	6,704
Commercial	20	95.24	1	4.76	21	4,620	90.23	500	9.77	5,120
Totals	176	88.00	24	12.00	200	20,333	84.40	3,759	15.60	24,092

Source: HMDA Data, Loan Sample

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

The distribution of loans based upon the demographics of borrowers within the AA showed reasonable penetration among borrowers of different incomes and businesses of different sizes. We analyzed the distribution of lending based on the primary product of each AA. Therefore, for Freestone/Limestone Counties, we analyzed the distribution of residential lending among borrowers of different incomes. For McLennan County, we analyzed the distribution of commercial lending among businesses of different sizes.

Freestone/Limestone Counties

Residential Loans

The distribution of home loans made within Freestone/Limestone Counties indicates reasonable penetration among borrowers of different incomes. We analyzed HMDA data to determine the penetration of loans. The data showed that the bank had a reasonable penetration of home purchase and refinance loans among low- and moderate-income families. It is noted that home improvement loans could not be analyzed, as there were only 10 loans made in the assessment period, which is not enough to conduct a meaningful analysis. The percentage of residential loans to low- and moderate-income levels (combined 27.5 percent) is slightly lower than the percentage of AA low- and moderate-income families, but lending is considered reasonable given the bank's performance context.

Borrower Distribution of Residential Real Estate Loans in Freestone/Limestone Counties								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	20.44	6.44	17.63	6.44	19.33	23.10	42.60	64.92
Refinance	20.44	2.56	17.63	12.82	19.33	23.08	42.60	61.54

Source: HMDA Data

McLennan County

Commercial Loans

The distribution of commercial loans made within McLennan County indicates excellent penetration among businesses of different sizes. We sampled 20 loans made in McLennan County (at the Waco, TX branch) since 2010. Of those loans, 19 were made to businesses with revenues less than \$1 million, while only one loan was made to a business with revenues greater than \$1 million.

The following table shows the distribution of loans to businesses of different sizes:

Borrower Distribution of Loans to Businesses in McLennan County				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	68.04	2.84	29.12	100%
% of Bank Loans in AA by #	95.00	5.00	0	100%
% of Bank Loans in AA by \$	98.38	1.62	0	100%

Source: Loan sample

Separate from our sample, bank management stated that they also have a lending relationship with NeighborWorks Waco, a non-profit organization whose mission is to build stronger neighborhoods through homeownership. The bank currently has three loans to NeighborWorks.

Geographic Distribution of Loans

Incommons geographic distribution of loans to low- and moderate-income census tracts in the AA is reasonable.

Freestone/Limestone Counties

Residential Loans

Incommons geographic distribution of loans reflects reasonable penetration for residential lending to low- and moderate-income geographies in Freestone/Limestone Counties. There is no lending in low-income tracts, as there are no low-income tracts within the counties. Lending in moderate-income tracts is reasonable in light of the

small percentage of moderate-income tracts in the AA. The majority of geographies within the counties are middle-income. Likewise, the majority of the bank’s residential lending is within middle-income tracts. Using HMDA data, we reviewed residential loans originated during the review period. The following table details performance compared to the percentage of owner occupied housing units in each census tract income level. It is noted that home improvement loans could not be analyzed, as there was not enough information to conduct a meaningful analysis (only 10 loans made).

Geographic Distribution of Residential Real Estate Loans in Freestone/Limestone Counties								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	3.65	3.03	77.85	83.33	18.5	13.64
Refinance	0.00	0.00	3.65	5.13	77.85	76.92	18.5	17.95

Source: Data reported under HMDA; U.S. Census Data

McLennan County

Commercial Loans

Incommons geographic distribution of loans reflects reasonable penetration for commercial lending to low- and moderate-income geographies in McLennan County. For McLennan County, we evaluated the geographic distribution of commercial loans (primary product). We sampled 20 commercial loans originated since 2010. For each census tract income level, the percent of loans originated closely resembles the income level (by percentage) of businesses in the county. The following table demonstrates the bank’s satisfactory performance in commercial lending to low- and moderate-income geographies:

Geographic Distribution of Loans to Businesses in McLennan County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial Loans	3.94	4.77	24.81	14.29	28.32	28.56	42.93	52.38

Source: Loan sample

Responses to Complaints

Incommons did not receive any complaints or public comments regarding CRA performance during this evaluation period.

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 needs.