



PUBLIC DISCLOSURE

March 12, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Incommons Bank, National Association
Charter Number 12190

301 E. Commerce Street
Mexia, Texas 76667

Office of the Comptroller of the Currency
Dallas Field Office
225 E. John Carpenter Freeway, Suite 900
Irving, Texas 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, and should not 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.

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Institution's CRA Rating: "Satisfactory"

The Lending Test is rated: "Satisfactory".

Major factors that support this satisfactory rating include:

- The bank's loan-to-deposit (LTD) ratio is reasonable.
- A majority of loan originations are inside the bank's AA.
- The distribution of residential loans to borrowers of different income levels and businesses and farms of different sizes, exhibits a reasonable penetration. The distribution of loans to businesses and farms of different sizes is reasonable considering performance context factors. More weight was given to the Limestone/Freestone Non-MSA AA because it accounts for about 70 percent of the bank's loans and deposits.
- The distribution of residential, business and farm loans across low- and moderate-income (LMI) census tracts (CTs) reflects reasonable dispersion when considering performance context factors. More weight was given to the Limestone/Freestone Non-MSA AA for the same reason noted above.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is; therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment areas.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Areas (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a core based statistical area that contains an urbanized population of at least 2.5 million. A metropolitan division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The metropolitan statistical area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier 1 Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Description of Institution

Incommons Bank, N.A. (Incommons or bank) is a single-state full-service community bank headquartered in Limestone County, Mexia, Texas. Established in 1922, the headquarters bank in Mexia is located 87 miles south of downtown Dallas off Interstate 45 North and Texas Highway 14. Incommons is wholly owned by Bi-Stone Bancshares, Inc., a one-bank holding company. The holding company is owned principally by shareholders (92 percent) local to Mexia and the surrounding area. In addition to the main office located in downtown Mexia, the bank has five other branch locations that span four contiguous counties: Limestone, Freestone, McLennan, and Falls.

The bank has two AAs, the Waco MSA AA and the Limestone/Freestone Non-MSA AA. Since the previous CRA examination, the bank added two branches as a result of its acquisition of certain assets and assumption of liabilities of Mart and Rosebud, Texas branches from Allegiance Bank, Houston, Texas on January 31, 2016. Under CRA regulations, assessment areas in an MSA and Non-MSA may not be combined for evaluation purposes. McLennan and Falls County make up the Waco MSA and cannot be combined with any Non-MSA area. Limestone and Freestone Counties are Non-MSA areas, and because they are contiguous political subdivisions, they can be combined. The assessment areas are more fully described in Appendix B: Community Profiles for Full Scope Areas. The Mart branch is located in a middle-income CT in the eastern part of McLennan County that borders Limestone County. The Rosebud branch is located in a middle-income CT of southwest Falls County. With the addition of the Rosebud branch, the bank's McLennan County AA noted in the previous PE expanded to include Falls County. There were no branch closings during the evaluation period.

Incommons offers an array of loan and deposit products and services commensurate with its size, including safe deposit boxes, debit cards, wire transfers, as well as mobile banking and deposit capture for both individuals and businesses. Banking hours are sufficient to deliver needed banking and credit services to LMI geographies and customers, as well as small business owners throughout the bank's assessment area. The bank's main office (headquarters) and branch locations are displayed in the chart below. Drive-thru banking is available at all banking locations with the exception of the Coolidge branch in Limestone County, this service is available at the main office in Mexia just 12 miles away. Automated Teller Machines (not deposit taking) are accessible to customers 24 hours at the main office in Mexia (Limestone), and the bank's Fairfield (Freestone) and Waco (McLennan) branch locations.

Branch Locations			
County/Office Name	Facility Type	CT Number	CT Income Level
Limestone County: Mexia Coolidge	Office, Drive-thru, and ATM Branch	9705.00 9701.00*	Moderate Middle
Freestone County: Fairfield	Branch, Drive-thru, and ATM	0003.00	Middle
McLennan County: Waco Mart	Branch, Drive-thru, and ATM Branch, Drive-thru	0037.06 0036.01	Upper Middle
Falls County: Rosebud	Branch, Drive-thru	0007.00	Middle

*Source: 2010 U.S. Census data updated through 2016.
Designated by federal banking agencies as distressed due to poverty in 2014 & 2015.

The bank's primary competition consists of local community banks and offices of large national banks operating within the bank's assessment areas.

Incommons has traditionally followed a conservative growth strategy with a lending focus in residential, commercial real estate, business and farm/agriculture. As of December 31, 2017, bank assets totaled \$165.2 million with gross loans totaling \$115.9 million or 69 percent of total assets. The following table reflects the composition of the loan portfolio by "Loan Type" as of December 30, 2017:

Loan Type (as of December 30, 2017)	Gross Dollar Amount \$ (000)	% of Gross Loans
Residential Real Estate	45,439	39.2
Commercial Real Estate	24,350	21.0
Farm and Agriculture	23,993	20.7
Commercial & Industrial	15,509	13.4
Consumer	6,391	5.5
Other	183	0.2
Total	115,865	100%

Source: Call Report data as of December 31, 2017.

There are no known legal or financial impediments to Incommons' ability to meet the credit needs of its AA.

The previous CRA examination, dated May 7, 2012, assigned a "Satisfactory" rating to the bank.

Scope of the Evaluation

Evaluation Period/Products Evaluated

Incommons is subject to Interagency Intermediate Small Bank (ISB) CRA evaluation procedures. This Performance Evaluation (PE) assesses the bank's performance solely under the Lending Test. The evaluation period ranges from May 7, 2012, the date of the prior PE, through March 12, 2018, the date of this evaluation. We identified commercial and industrial (business), farm and agriculture (farm), and residential real estate (home) loans as the bank's primary loan products. The Lending Test concentrated on lending activity from January 1, 2014 to December 31, 2016. Our lending analysis does not include 2017 loan data as 2017 HMDA data was not available under the new reporting format when data was being collected for this evaluation.

In our evaluation of the distribution of loans, we utilized the demographic data from the 2010 Census as it applies to calendar years 2014, 2015, and 2016.

Data Integrity

This evaluation is based on accurate data. HMDA data for residential real estate loans reported by the bank for the years 2014, 2015, and 2016 was verified prior to this evaluation and found to be reliable. To evaluate the bank's performance relative to business and farm lending for the Limestone/Freestone Non-MSA and Waco MSA, we selected a random sample of 20 commercial business loans and 20 farms loans originated and purchased in each AA (80 total) by the bank during the timeframe January 1, 2014 through December 31, 2016. We validated business and farm locations for each loan for our geographic analysis and the gross annual revenue on each loan for our borrower income analysis.

Selection of Areas for Full-Scope Review

Full-scope reviews were conducted on the bank's two assessment areas, Limestone/Freestone Non-MSA AA and Waco MSA AA. There were no limited-scope reviews. Please refer to Appendices A and B for additional detail on the AAs.

Ratings

The bank's overall rating is based primarily on those geographies that received full-scope reviews. More weight was placed on the Limestone/Freestone Non-MSA AA in the overall rating as this AA represented the largest percentage of loans and deposits during the evaluation period. Information provided by management indicates that approximately 69 percent of the bank's loans and 72 percent of deposits originated in the Limestone/Freestone Non-MSA AA.

Incommons Bank – Loans and Deposits by AA (in 000s)					
	Limestone/Freestone Non-MSA		Waco MSA		AAs Combined
	(\$000)	%	(\$000)	%	
Total Deposits	\$98,241	72.1%	\$37,997	27.9%	\$136,238
Net Loans	\$80,004	69.3%	\$35,520	30.7%	\$115,524
Loan-to-Deposit Ratio	81.4%		93.5%		84.8%

Source: Bank-provided data as of December 31, 2017.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) or 195.28(c), respectively, in determining a national bank’s or federal savings association’s (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution [or any affiliate whose loans have been considered as part of the institution’s lending performance] has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution’s next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Conclusions with Respect to Performance Tests

LENDING TEST

The bank’s performance under the Lending Test is rated “Satisfactory”.

Loan-to-Deposit Ratio

Loan-to-Deposit Ratio			
Financial Institutions	Location City/County	Total Assets as of 12/31/2017 (\$000’s)	Quarterly Average Loan-to-Deposit Ratio (%)
Incommons Bank, NA	Mexia/Limestone	164,034	79.96
Alliance Bank Central Texas	Waco/McLennan	239,852	71.27
Fidelity Bank of Texas	Waco/McLennan	99,165	79.57
Farmers State Bank	Groesbeck/Limestone	130,519	50.66

Source: Institution Reports of Condition from June 30, 2012 to December 31, 2017.

The preceding table reflects the proportion of lending inside versus outside the bank’s assessment area(s) which is calculated on a bank-wide basis. The bank’s level of lending is reasonable considering the bank’s size, financial capacity, and performance context.

Our determination is based on the quarterly average loan-to-deposit (LTD) ratios during the evaluation period, from the quarter ended June 30, 2012 through December 31, 2017. During the evaluation period, the bank’s LTD ratio ranged from a low of 74.57 percent to a high of 84.28 percent with an average of 79.96 percent. The quarterly average LTD ratio for similarly situated institutions for the same period ranged from 50.66 percent to 79.57 percent, or an average of 67.17 percent.

Management considers the other banks reflected in the table to be similarly situated institutions. All offer similar loan and deposit products and have branch locations in the same AAs. There is no intended or implied ranking.

Lending in Assessment Area

Lending in the AA is calculated on a bank wide basis. As noted in Table 1 below, a majority of the bank’s lending during the evaluation period originated inside the AAs. As depicted in the table below, 84.49 percent of the number and 77.47 percent of the dollar amount of loans were originated or purchased inside the AAs.

Table 1 - Lending in Combined AAs										
Loan Type	Number of Loans					Dollars of Loans (\$000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	182	87.50	26	12.50	208	19,654	79.48	5,075	20.52	24,729
Home Improvement	35	87.50	5	12.50	40	1,783	82.17	387	17.83	2,170
Home Refinance	49	67.12	24	32.88	73	4,276	60.32	2,813	39.68	7,089
Farm Loans	20	100.00	0	0.00	20	2,112	100.00	0	100.00	2,112
Business Loans	19	95.00	1	5.00	20	1,072	89.39	127	10.61	1,199
Totals	305	84.49	56	15.51	361	28,897	77.47	8,402	22.53	37,299

Source: Data reported under HMDA; random samples of bank-provided data.

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

Incommons' overall borrower distribution of loans is reasonable. The borrower distribution of loans within both the Limestone/Freestone Non-MSA and the Waco MSA is reasonable. More weight was given to the Limestone/Freestone Non-MSA as it represents the higher percentage of bank deposits and lending.

Limestone/Freestone Non-MSA AA

The borrower distribution of loans in the Limestone/Freestone Non-MSA AA reflects reasonable penetration and generally meets the standard of satisfactory performance. The bank's distribution of residential real estate loans to LMI borrowers reflects reasonable penetration when considering the bank's performance context and consistency with safe and sound operations. More weight was given to home purchase loans and moderate-income borrowers. The bank's borrower distribution of loans to businesses of different sizes demonstrates reasonable penetration and meets the standard for satisfactory performance. More weight was given to the percentage of the number of loans to small businesses. Finally, the distribution of loans to farms of different sizes is more than reasonable, reflects excellent penetration, and exceeds the standard for satisfactory performance.

Residential Real Estate Loans

Table 2 - Borrower Distribution of Residential Real Estate Loans in Non-MSA								
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	17.71	3.94	17.57	17.32	18.15	18.11	46.57	59.84
Home Improvement	17.71	10.71	17.57	10.71	18.15	17.86	46.57	57.14
Home Refinance	17.71	5.41	17.57	13.51	18.15	16.22	46.57	64.86

Source: Data reported under HMDA; 2010 U.S. Census data.

In Table 2 above, the bank's percentage of the number of home loans (purchase, home improvement, and refinance) originated and purchased to low-, moderate-, middle-, and upper-income borrowers is compared to the percentage of AA families that are in each of those income levels. Our analysis focuses on LMI borrowers.

For certain loan types reflected in the preceding Table 2, residential real estate loans originated to low-income borrowers is significantly lower than the percentage of families in those income levels. For all other loan types, the percentage of the number of real estate loans originated to LMI borrowers is either near or slightly lower than the percentage of AA families that are in those income levels. While poor penetration is noted with respect to low-income borrowers, performance overall reflects reasonable penetration, and meets standards of performance when considering performance context and safe and sound banking practices. It is important to note that the bank originated only 28 home improvement and 37 refinance loans during the entire evaluation period, compared to 127 home purchase loans, and low-income borrowers typically struggle to meet conventional underwriting standards. As a result, more weight was placed on lending to moderate-income level borrowers. We also placed more weight on home purchase lending as this is more reflective of the bank's lending focus, comprising 65 percent of residential real estate lending during the evaluation period. Please refer to further housing-related discussion in Appendix B: Community Profile for the Limestone/Freestone Non-MSA.

Business Loans

Table 2A - Borrower Distribution of Loans to Businesses in Non-MSA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	80.45	4.70	14.85	100%
% of Bank Loans in AA by #	80.00	20.00	0.00	100%
% of Bank Loans in AA by \$	15.20	84.80	0.00	100%

Source: Sample of bank-provided data; Dun & Bradstreet data.

Table 2A above reflects the percentage of the number and dollar amount of loans the bank originated to businesses with gross annual revenues of \$1 million or less, and to businesses with gross annual revenues over \$1 million. These percentages are compared to the percentage of AA businesses with gross annual revenues at those respective levels, sometimes referred to as the demographic comparator.

As reflected in Table 2A, the borrower distribution of loans to businesses reflects reasonable penetration and meets the standard of satisfactory performance. The bank’s percentage of loans originated by number to small businesses (80 percent) is near the demographic comparator (80.45 percent). While the percentage of loans by dollar volume to small businesses (15.20 percent) is reflected to be significantly lower than the demographic comparator, we placed more weight on the number of loans. This decision to place more weight on the number of loans originated and purchased is based on the fact that more than three quarters (77 percent) of all business loans originated and purchased, during the evaluation period, were in the amount of \$50,000 or less and 84 percent were in the amount of \$100,000 or less. The stratification of all business loans by size originated and purchased during the evaluation period is depicted in Table 2C below.

Table 2C - Borrower Distribution of Loans to Businesses by Loan Size in Non-MSA				
Loan Size	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$10,000	89	27%	\$556,897	2%
\$10,001 - \$20,000	63	19%	\$947,658	3%
\$20,001 - \$30,000	45	13%	\$1,119,847	4%
\$30,001 - \$50,000	61	18%	\$2,486,553	8%
\$50,001 - \$100,000	22	7%	\$1,477,048	5%
Over \$100,000	54	16%	\$23,014,563	78%
Total	334	100%	\$29,601,566	100%

Source: Aggregated from bank-provided data from 2014-2016.

Our sample of business loans originated and purchased in the AA is reflective of this dispersion, with 17 of 20 (85 percent) in amounts of \$30,000 or less. The remaining three business loans were substantially larger in the amounts of \$350,000 (2) and \$619,000 (1), which significantly skewed the percent of loans by dollar amount. Additionally, one of the \$350,000 loans reflects an annual renewal to the same borrower. The high percentage of the number of business loans originated in amounts under \$50,000 during the evaluation period, including those in our sample, is indicative of the bank serving the needs of small businesses. Therefore, the bank’s overall distribution of business loans to small businesses is reasonable and meets the standard of satisfactory performance.

Farm Loans

Table 2A - Borrower Distribution of Loans to Farms in Non-MSA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98.26	0.58	1.16	100%
% of Bank Loans in AA by #	100.00	0.00	0.00	100%
% of Bank Loans in AA by \$	100.00	0.00	0.00	100%

Source: Sample of bank-provided data; Dun & Bradstreet data; 2010 U.S. Census.

For this criterion, the bank's percentage of the number and dollar amount of farm loans that it originated and purchased, to farms with gross annual revenues of \$1 million or less, and to farms with gross annual revenues over \$1 million, is compared to the percentage of AA farms with gross annual revenues at those respective levels. As reflected in Table 2A above, the bank's performance in the number and dollar amount exceeds the demographic comparator which is more than reasonable and exceeds the standard of satisfactory performance. The percentage of loans originated by number and dollar amount to small farms (100 percent) exceeds the percentage of AA farms (98.26 percent).

WACO MSA AA

The borrower distribution of loans overall in the Waco MSA AA is reasonable and meets the standard of satisfactory performance. The bank's distribution of residential real estate loans reflects a reasonable penetration and meets the standard of satisfactory performance. The distribution of loans to small businesses and small farms reflects reasonable penetration when considering the bank's performance context and consistent with safe and sound operations.

Residential Real Estate Loans

Table 2 - Borrower Distribution of Residential Real Estate Loans in Waco MSA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	22.48	7.27	17.47	29.09	19.41	18.18	40.63	30.91
Home Improvement	22.48	0.00	17.47	42.86	19.41	28.57	40.63	28.57
Home Refinance	22.48	0.00	17.47	8.33	19.41	41.67	40.63	33.33

Source: Data reported under HMDA; 2010 U.S. Census data.

The distribution of residential real estate loans originated to borrowers of different income levels reflects reasonable penetration and meets the standard of satisfactory performance. For certain loan types reflected in the preceding Table 2, residential real estate loans originated to low-income borrowers is significantly lower than the percentage of families in those income levels.

The bank’s percentage of the number of home purchase loans (29.09 percent) and home improvement loans (42.86 percent) originated to moderate-income borrowers during the evaluation period exceeds the percentage of AA families at that income level (17.47 percent). While the percentage of the number of home refinance loans (8.33 percent) is lower than the same comparator, more weight was given to home purchase lending as this is more reflective of the bank’s lending focus comprising 65 percent of residential real estate lending during the evaluation period. Additionally, the bank originated only seven home improvement and 12 refinance loans during the entire evaluation period. The bank’s opportunities to originate home loans to the 22.48 percent of AA families that are low-income are limited, as close to 20 percent of AA households and 14 percent of AA families live below the poverty level and LMI applicants typically have difficulty qualifying for traditional home loan financing. As such, we placed more weight on lending to borrowers of moderate-income. Please refer to further housing-related discussion in Appendix B: Community Profile for the Waco MSA.

Business Loans

Table 2A - Borrower Distribution of Loans to Businesses in Waco MSA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	81.45	5.70	12.85	100%
% of Bank Loans in AA by #	80.00	20.00	0.00	100%
% of Bank Loans in AA by \$	31.58	68.42	0.00	100%

Source: Bank aggregated data; Dun & Bradstreet data.

The distribution of business loans reflects reasonable penetration among businesses of different sizes and meets the standard of satisfactory performance. As depicted above in Table 2A, the percentage of loans, by number, to small businesses is near the percentage of small businesses in the AA (demographic comparator).

Although the percentage by the dollar volume of loans is significantly below the demographic comparator, more weight was placed on the number of business loans originated. Our decision to place more weight on the number of loans originated is based on a review of all of the bank’s business loans originated during the evaluation period, not just the random sample of 20 business loans. Our review noted that more than three quarters (77 percent) of all business loans originated during the evaluation period were in the amount of \$50,000 or less and 84 percent were in the amount of \$100,000 or less. The stratification of all business loans by size, originated and purchased during the evaluation period, is depicted in Table 2C below.

Table 2C - Borrower Distribution of Loans to Businesses by Loan Size in Waco MSA						
Loan Size	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume	Percent of All Loans (Less Than \$50,000)	Percent of All Loans (Less Than \$100,000)
\$0 - \$10,000	89	27%	\$556,897	2%	77%	84%
\$10,001 - \$20,000	63	19%	\$947,658	3%		
\$20,001 - \$30,000	45	13%	\$1,119,847	4%		
\$30,001 - \$50,000	61	18%	\$2,486,553	8%		
\$50,001 - \$100,000	22	7%	\$1,477,048	5%		
Over \$100,000	54	16%	\$23,014,563	78%		
Total	334	100%	\$29,601,566	100%		

Source: Bank aggregated data from 2014-2016.

Our random sample of 20 business loans reflected this dispersion with 16 of 20 (80 percent) in amounts of \$50,000 or less. The other four business loans originated within the AA were substantially larger, in the amounts \$150,000, \$230,000, \$643,621, and \$2.7 million, which significantly skewed the percentage of loans by dollar volume. Of the larger loan amounts, only the \$2.7 million loan was to a business reporting gross revenues greater than \$1.0 million, the city of Mart in McLennan County, which utilized the funds for infrastructure improvements. A significant majority of the number of business loans originated during the evaluation period, including those in our sample, is more indicative of the bank's business lending and meeting the needs of the business community.

Farm Loans

Table 2A - Borrower Distribution of Loans to Farms in Waco MSA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farms	97.82	1.09	1.09	100%
% of Bank Loans in AA by #	95.00	5.0	0.00	100%
% of Bank Loans in AA by \$	64.58	35.42	0.00	100%

Source: Bank aggregated data; Dun & Bradstreet data.

The bank's distribution of loans to farms of different sizes reflects reasonable penetration and meets the standard of satisfactory performance. As depicted in Table 2A above, 95 percent of the number of farm loans originated by the bank were to small farms in the AA. Small farms are those with gross revenues of \$1.0 million or less. This 95 percent in the number of farm loans originated is near the percentage of reported farms in the AA (97.82 percent) and thus meets the standard for satisfactory performance. The bank's percentage of the dollar amount of business loans it originated to farms with gross revenues of \$1.0 MM or less (64.58 percent) is lower than the percentage of farms and also meets the standard of satisfactory performance. Of our random sample of 20 farms loans, 19 out of 20 was originated to small farms at an average \$24,310.

The one loan skewing the percentage by dollar amount was originated to a local feed store in Rosebud with gross revenues greater than \$1.0 million in the amount of \$800 thousand. As such, more weight was placed on the percentage of the number of farm loans.

Geographic Distribution of Loans

This criterion measures the bank’s performance in lending to geographies of different income levels. The geographic dispersion of loans within both the Limestone/Freestone Non-MSA and the Waco MSA is considered reasonable when considering certain performance context factors, and meets the standard of satisfactory performance. This conclusion is based on an analysis of HMDA data and a loan sample of 20 loans, comprised of business loans and farm loans originated in both AAs. More weight was given to borrower distribution for purposes of our overall lending assessment as borrower distribution better reflects the bank’s lending activities to LMI families and small businesses and farms. We did not identify any material or unexplained gaps in our analysis of lending in the AAs.

Limestone/Freestone Non-MSA AA

The geographic distribution of loans in the Limestone/Freestone Non-MSA AA reflects a reasonable dispersion and meets the standard of satisfactory performance. The geographic distribution of residential real estate loans (home loans) and business loans in LMI geographies demonstrates reasonable dispersion. The geographic distribution of farm loans is also reasonable and meets the standard for satisfactory performance when considering the bank’s performance context and safe and sound banking practices.

Residential Real Estate Loans

Table 3 - Geographic Distribution of Residential Real Estate Loans in Non-MSA								
CT 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	14.93	10.24	42.00	55.91	43.07	33.86
Home Improvement	0.00	0.00	14.93	28.57	42.00	32.14	43.07	39.29
Home Refinance	0.00	0.00	14.93	16.22	42.00	45.95	43.07	37.84

Source: Data reported under HMDA; 2010 U.S. Census data.

In evaluating residential real estate lending, the percentage of the number of home loans originated in each geography income level (low-, moderate-, middle-, and upper) is compared to the percentage distribution of owner-occupied housing units located in those geography income levels.

As reflected in Table 3 above, the geographic distribution of residential real estate loans (home loans) reflects reasonable dispersion and meets the standard for satisfactory performance. The percentage of the number of home purchases (10.24 percent) originated and purchased in moderate-income CTs is near the percentage of AA owner-occupied housing (14.93 percent) and considered reasonable and meets the standard for satisfactory performance. The percentage of the bank's home improvement loans (28.57 percent) and home refinances (16.22 percent) exceeds the demographic comparator (14.93 percent) and considered more than reasonable and exceeds the standard of satisfactory performance. More weight was given to home purchase loan activity as it represents a higher percentage of the bank's HMDA activity for the evaluation period. There are no low-income CTs in the AA.

Business Loans

Table 3A - Geographic Distribution of Loans to Businesses in Non-MSA AA								
CT 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
Business Loans	0.00	0.00	16.53	10.00	46.94	45.00	36.52	45.00

Source: Business loan sample; Dun & Bradstreet data.

Table 3A above reflects the percentage of the number of loans the bank originated and purchased to businesses in low-, moderate-, middle-, and upper-income CTs compared to the percentage of AA businesses in those. The bank's geographic distribution of business loans in the AA reflects reasonable dispersion and meets the standard for satisfactory performance as the percentage of the number of loans originated to businesses in moderate-income geographies (10.00 percent) during the evaluation period is lower than the percentage of AA businesses in that income level (16.53 percent). Again, there are no low-income CTs in this AA.

Farm Loans

Table 3A - Geographic Distribution of Loans to Farms in Non-MSA AA								
CT Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farm Loans	0.00	0.00	8.72	0.00	44.77	60.00	46.51	40.00

Source: Farm loan sample; Dun & Bradstreet data.

Table 3A above reflects the percentage of the number of loans originated or purchased to farms in low-, moderate-, middle-, and upper-income CTs compared to the percentage of all farms in each CT income level. Based on our loan sample of farm loans in this AA, the bank did not make any loans to borrowers in the moderate-income geographies. Again, there are no low-income geographies in the AA.

This lending activity in moderate-income areas generally does not meet the standard of satisfactory performance. However, this poor dispersion is reasonable when considering the bank’s performance context as discussed in Appendix B: Community Profile of the Limestone/Freestone Non-MSA. The most obvious factor that explains this poor dispersion is the low number of farms (15) located in moderate-income areas in the AA.

Waco MSA AA

The geographic distribution of lending in the Waco MSA reflects reasonable dispersion given performance context factors and generally meets the standard of satisfactory performance.

Residential Real Estate Loans

Table 3 - Geographic Distribution of Residential Real Estate Loans in Waco MSA								
CT 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	5.40	12.73	15.37	29.09	33.52	32.73	45.69	25.45
Home Improvement	5.40	0.00	15.37	14.29	33.52	85.71	45.69	0.00
Home Refinance	5.40	8.33	15.37	8.33	33.52	50.00	45.69	33.33

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

The bank’s geographic distribution of residential real estate loans in the AA demonstrates a reasonable dispersion throughout the LMI CTs and meets the standard of satisfactory performance. As noted in Table 3 above, with the exception of home improvement loans and home refinance loans in the low-income CTs and home refinance loans in moderate-income CTs, home lending is near to or exceeds the percentage of owner-occupied housing in LMI geographies. In light of this poor dispersion in home improvement and refinance lending in the low-income CTs, more weight is given to home purchase loans. Home purchases represent the higher percentage of residential real estate loan activity for the bank.

Business Loans

Table 3A - Geographic Distribution of Loans to Businesses in Waco MSA								
CT 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
Businesses	5.39	0.00%	21.84%	20.00%	32.55%	80.00%	39.63%	0.00%

Source: Sample of bank-provided data; Dun & Bradstreet data.

From a random sample of the bank’s business loans, the geographic distribution of business loans originated in the AA during the evaluation period demonstrates a reasonable dispersion of loans to different income levels. As reflected in Table 3A above, the bank’s percentage of the number of loans it originated to businesses in the low-income CTs (0 percent) is below the percentage of businesses located in those geographies (5.39 percent) and generally does not meet the standard of satisfactory performance. However, the bank’s percentage of the number of loans originated to businesses in moderate-income geographies (20 percent) is near the percentage of AA businesses (21.84 percent) and meets the standard of satisfactory performance. The poor dispersion to low-income geographies is reasonable given the bank’s performance context factors noted in Appendix B: Community Profile for the Waco MSA of this Performance Evaluation. Because of the low percentage of AA businesses in low-income geographies (5.39 percent), more weight was placed on the bank’s lending performance in the moderate-income geographies.

Farm Loans

Table 3A - Geographic Distribution of Loans to Farms in Waco MSA								
CT Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farms	1.50	0.00%	7.63%	0.00%	47.00%	95.00%	43.60%	5.00%

Source: Sample of bank-provided data; Dun & Bradstreet data.

In Table 3A above, the bank’s farm lending performance for the evaluation period reflects poor dispersion. While the bank did not originate any farm loans in low- and moderate-income geographies during the evaluation period, the resulting poor dispersion in LMI geographies is reasonable given certain performance context factors noted in Appendix B: Community Profile for the Waco MSA of this Performance Evaluation.

Responses to Complaints

No CRA-related complaints were made against the bank during this evaluation period.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan geographies that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test: (01/01/2014 to 12/31/2016)	
Financial Institution		Products Reviewed
Incommons Bank, National Association (Incommons) Mexia, Texas		Residential Real Estate Loans Commercial Loans Farm & Agriculture Loans
Affiliate(s)	Affiliate Relationship	Products Reviewed
N/A		
List of Assessment areas and Type of Examination		
Assessment Area(s)	Type of Exam	Other Information
Texas Limestone/Freestone Non-MSA Waco MSA	Full-Scope Full-Scope	All of Limestone & Freestone County All of McLennan & Falls County

Appendix B: Community Profiles for Full-Scope Areas

Limestone/Freestone Non-MSA AA

Demographic Information for Full-Scope Area: Limestone/Freestone Non-MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	15	0.00	20.00	46.67	33.33	0.00
Population by Geography	43,200	0.00	15.60	46.76	37.64	0.00
Owner-Occupied Housing by Geography	11,794	0.00	14.93	42.00	43.07	0.00
Businesses by Geography	2,256	0.00	16.53	46.94	36.52	0.00
Farms by Geography	172	0.00	8.72	44.77	46.51	0.00
Family Distribution by Income Level	10,137	0.00	17.19	43.61	39.19	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	3,576	0.00	26.09	45.75	28.16	0.00
Median Family Income	= \$54,971	Median Housing Value				= \$84,647
HUD Adjusted Median Family Income for 2016	= \$52,400	Unemployment Rate (Limestone)				= 5.7%
Households Below the Poverty Level	= 14.58%	Unemployment Rate (Freestone)				= 6.9%

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2010 U.S. Census and 2016 FFIEC updated MFI.

Incommons designates all of Limestone and Freestone Counties, a nonmetropolitan statistical area (Non-MSA), as one of its two AAs. The Limestone/Freestone Non-MSA AA comprises a total of 15 CTs (three moderate-income, seven middle-income, five upper-income). There are no existing low-income geographies; however, all of the five middle-income CTs in Limestone County were designated by federal agencies as distressed nonmetropolitan middle-income tracts due to poverty until June 30, 2016. Please refer to the “Description of Institution” section of this PE for details on the location of branch bank locations in this AA.

The bank has properly defined its Limestone/Freestone Non-MSA AA in accordance with the technical requirements of the CRA regulation. The AA consists of whole geographies, does not arbitrarily exclude LMI geographies, includes CTs where the bank’s main office, branches, and ATMs are located, and does not reflect illegal discrimination.

The city of Mexia is the largest city in Limestone County with a population of 7,459 as of the 2010 U.S. Census. Limestone County, with a population of 23,384, includes the cities and towns of Groesbeck (county seat), Mart, Mexia, Coolidge, Kosse, Tehuacana, and Thornton. The city of Teague is the largest city in Freestone County with a population of 3,560, as of the 2010 U.S. Census. Freestone County, with a population of 19,816, includes the cities and towns of Fairfield (county seat), Teague, Kirvin, Oakwood, Streetman, and Wortham.

Major private employers in the AA include the Mexia State Supported Living Center, Wal-Mart, and various oil and gas companies in Freestone County. Leading public service sector employers include the Mexia, Teague, and Fairfield Independent School Districts and government sector positions such as the police force and city and county offices.

The AA is a moderately competitive banking environment. According to the FDIC Deposit Market Share Report as of June 30, 2017, there are 10 banks operating 20 offices in the AA with deposits totaling \$564 million. Incommons, operating three of its six offices and two of its three ATMs in the AA, ranked third overall with 17.15 percent market share and deposits totaling \$96.7 million. Citizens State Bank and Farmers State Bank, both local and Citizens being a much larger community bank, hold the top two spots with 20.26 percent and 18.57 percent market share, respectively. Their respective deposits in the AA total \$114 million and \$105 million, respectively. The remaining market share is divided among offices of several regional and nationally-recognized banks such as Woodforest National Bank, Prosperity Bank, Compass Bank, and Wells Fargo.

According to the Bureau of Labor Statistics, the 2016 annual unemployment rates of 5.7 percent and 6.9 percent for Limestone and Freestone Counties, respectively, compare less favorably with the State of Texas and U.S. unemployment rates of 4.6 and 4.9 percent, respectively, during the same time period. These higher average unemployment rates in the AA decreases the number of qualified borrowers and; therefore, decreases lending opportunities in the AA.

Owner-occupied housing units represent 60.24 percent of total housing in the AA, while rental occupied housing units represent another 16.19 percent. Another 23.57 percent of housing is vacant. While there are no low-income geographies in the AA, only 14.93 percent of the owner-occupied housing exists within the three moderate-income geographies in the AA. Low- and moderate-income families with 17.71 percent and 17.57 percent, respectively, make up an equal percentage of the AA. While almost 15 percent of households in the AA live below the poverty level, 23.89 percent of those households are located in the three moderate-income CTs. Additionally, there are approximately 16 percent of AA households that are in retirement.

The median value of housing in the AA is \$84,647 and housing stock is on average 40 years old. In moderate-income geographies, the average value of housing stock is \$66,237 while the average age of the stock is 46 years old, compared to \$78,370 and 40 years in middle-income geographies (all of which in Limestone County were designated in 2014 and 2015 as distressed nonmetropolitan middle-income CTs due to poverty). Older housing often has higher maintenance costs and frequently requires significant repairs to meet code requirements, while also often less energy efficient resulting in higher utility costs. These factors and loan demand, in addition to down payment requirements for traditional mortgage loan financings, are obstacles to homeownership opportunities for LMI families, low-income applicants particularly.

The number of smaller businesses and farms in the AA has declined in recent years. According to Dun & Bradstreet, just over 500 businesses (18 percent) and 63 farms (27 percent) in the AA closed their doors between 2014 and 2016. Approximately three-quarters of these businesses and all but one of these farms had either unreported revenues or reported annual gross revenues of less than \$1.0 million. A steady decline in area businesses and farms contributes to fewer lending opportunities in the AA. There are limited opportunities for the bank to lend to the small farms in the AA due to the few farms that do exist in the three moderate-income CTs (15), as well as the bank's proximity to these three moderate-income geographies. The 15 farms in moderate-income geographies represents only 8.72 percent of all farms in the AA. Secondly, Incommons arguably has a competitive lending disadvantage in two of the three moderate-income CTs. Seven farms are located in a moderate-income CT in the city of Teague (CT 7.00) where Incommons has no branch presence. Three other financial institutions operate in that city, including Citizens State Bank, which has the highest market share in the AA. Moreover, while there are no financial institutions located in CT 9.00 in Freestone County, where six other farms are reported by Dun & Bradstreet to exist, Fairfield is the closest city and provides a competitive market for farm loans. Besides Incommons, there are five other financial institutions operating in Fairfield, including a large national bank, local community banks, and farm/ag banks, one of which receives federal support through the Farm Credit System allowing it to offer competitive lending options to borrowers. The remaining two farms in moderate-income areas are reported to be located in Mexia where the bank's home office is located. Opportunity for Incommons to lend on these two farms is limited due to local competition from other community banks (e.g., Farmers State Bank and Citizens National Bank).

A community contact interview with a senior management official of a local non-profit organization in Mexia conducted during this evaluation indicated that the local labor market benefited since 2014 from a large flooring manufacturer entering the area and expansion of a large trailer manufacturing and distribution company. Each of these companies created additional job opportunities in both manual and skilled labor. The contact was not aware of any specific credit-related project or financing program. The contact believes the area could benefit from more home improvement lending.

The contact further indicated Incommons is an active member of the community developing relationships with the citizens and participating in local activities and events. The bank offers appropriate loan products for the region and the bank actively seeks to help potential customers find the products that are most appropriate for their needs.

Waco MSA AA

Demographic Information for Full-Scope Area: Waco MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (CTs/BNAs)	57	14.04	19.30	35.09	28.07	3.51
Population by Geography	252,772	12.18	19.29	31.90	34.96	1.67
Owner-Occupied Housing by Geography	54,013	5.40	15.37	33.52	45.69	0.02
Businesses by Geography	15,053	5.39	21.84	32.55	39.63	0.60
Farms by Geography	734	1.50	7.73	47.00	43.60	0.27
Family Distribution by Income Level	59,428	22.48	17.47	19.41	40.63	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	23,745	16.17	29.81	32.19	21.83	0.00
Median Family Income	= \$53,077	Median Housing Value		= \$97,429		
FFIEC Adjusted Median Family Income for 2016	= \$50,900	Unemployment Rate:		= 3.9%		
Households Below the Poverty Level	= 19.97%	(December 2016)				

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2010 U.S. Census and 2016 FFIEC updated MFI; December 2016 BLS Unemployment Rate.

Since the previous CRA, Incommons expanded its McLennan County AA in conjunction with its purchase of the Rosebud branch in southern Falls County from Allegiance Bank of Houston, Texas in January 2016. The bank delineates all of McLennan County and Falls County. Combined, these two counties make up the Waco MSA in Central Texas. Waco is McLennan County's largest city and the county seat, which is approximately 90 miles south of Dallas/Fort Worth and 100 miles north of Austin. Interstate Highway 35 (IH-35), U.S. Highway 84, and Texas State Highway 6 traverse the city of Waco and McLennan County, linking it to multiple major economic regions of the state. In Falls County, Marlin is the largest city and county seat. Other cities within Falls County include Bruceville-Eddy (mostly in McLennan), Golinda (partially in McLennan), Chilton, Lott, and Rosebud.

The AA is comprised of 51 CTs (CTs), consisting of seven low-income CTs, 10 moderate-income CTs, 16 middle-income CTs, 16 upper-income CTs, and two CTs that are not income-classified. One of these not income-classified areas (0003.00) is occupied almost entirely by Baylor University and the other (9800.00) by the Waco Regional Airport. The Texas State Technical College (TSTC) of Waco was also identified as occupying a large part of one low-income CT (0033.00). The composition of these CTs limit the bank's lending opportunities in these geographies. According to Federal Financial Institutions Examination Council (FFIEC) Reports, no middle-income CTs were designated as either distressed or underserved during the evaluation period.

The bank has properly defined its AA in accordance with the technical requirements of the CRA regulation. The AA consists of whole CTs, does not arbitrarily exclude LMI CTs, and includes the CTs where the bank branches are located. The AA meets requirements of the regulation, does not reflect illegal discrimination, and does not arbitrarily exclude any LMI geographies.

Incommons has three branches in this AA, two in McLennan County (Waco and Mart), and one in Falls County (Rosebud). The Waco branch is located in an upper-income geography, while the Mart and Rosebud branches are located in middle-income geographies.

According to Moody's Analytics (January 2018), the Waco economy is cooling a bit as employment growth decelerated for much of 2017 although migration patterns have improved. Waco experienced a healthy population growth rate, growing to 252,772 according to the 2010 Census. This is up 10 percent over the 2000 Census (213,517) and 24 percent over the 1990 Census (189,123). More recent house price gains have been coupled with flat housing starts. Waco offers below-average business and living costs, in addition to opportunities for professional development and workforce training with three higher education institutions (Baylor University, McLennan Community College and Texas State Technical College) collectively enrolling over 31,000 students. Residents of Waco enjoy an array of community assets, from arts to education to major college sports to a vibrant downtown on the Brazos River.

According to the Waco Chamber of Commerce, the AA has a diverse economy with no one industry representing more than 20 percent of the market. Major industries include educational and health services (18 percent), trade/transportation/utilities (17 percent), government (17 percent), and manufacturing (14 percent). Major employers in the Waco area include Providence Health Center, Baylor University, Wal-Mart, Waco ISD, L-3 Integrated Systems (Aerospace), Hillcrest Health System, city of Waco, HEB Stores, Midway ISD, and Sanderson Farms, Inc. The city's below-average cost of living and proximity to Dallas/Fort Worth, Austin, San Antonio, and Houston draws skilled talent.

Waco's economic stability is enhanced by the diversity of its economic base. The strength of this diversity is evident in the area's annual unemployment rate of 3.9 percent for 2016, which compares more favorably to the State of Texas and U.S. annual unemployment rates for the same period of 4.6 percent and 4.9 percent, respectively. Households living below the poverty level in the AA; however, are higher than the state average. The 2010 Census Data reports that 20 percent of the AA households live below poverty levels compared to the state and national average of 15.6 percent and 12.7 percent, respectively.

The Waco MSA banking environment is fiercely competitive. The FDIC Market Share Report, as of June 30, 2017, indicates that 28 institutions operate 66 offices in the AA. Incommons operates three offices in the AA and is ranked 23rd with total deposits of \$33 million, which represents market share of less than 1.0 percent. Larger community banks, First National Bank of Central Texas and Central National Bank, hold the top two spots with market shares of 12.87 percent and 10.65 percent, respectively, with a total of six branch offices. Additionally, there are 14 credit union offices as well as Capital Farm Credit, Lone Star Ag Credit, and Texas Farm Bureau Federal Credit Union operating in the Waco area.

In evaluating the borrower distribution of home loans in the AA, we considered the impact from above average poverty levels. In addition, we considered the volume, average age, and median values of owner-occupied housing in the AA to low- and moderate-income CTs. Opportunities to lend in these geographies are limited due to various performance context factors. According to the 2010 Census, LMI CTs account for one-third of all CTs (19 of 57) in the AA, and less than 6 percent of the total housing in the low-income CTs is owner-occupied. In moderate-income CTs, that percentage is 15 percent. Additionally, close to two-thirds of families in low- and moderate-income CTs live below the poverty level, and 55 percent of households receive some form of public assistance. In low-income CTs, the median value and age of housing is \$53,767 and 46 years. In moderate-income geographies, the housing stock median age is 53 years with a median value of \$67,401. Older housing often has higher maintenance costs, frequently requires significant repairs, and is generally less energy efficient resulting in higher utility costs. Not to forget property taxes which further increase the cost of home ownership. These factors, including the down payment requirement for traditional mortgage loan financings make difficult homeownership opportunities for LMI families, low-income applicants particularly.

Though major employers in the Waco MSA remain strong, the number of smaller businesses and farm employers in the AA has declined in recent years. Many centered on oil and gas and support services while plummeting oil and gas prices curtailed demand for services and new construction. According to Dun & Bradstreet data, the number of businesses and farms operating in the MSA declined by 2,727 or 15 percent between 2014 and 2016. A total of 2,441 businesses (14 percent) and 286 farms (28 percent) shut down operations. Almost 60 percent of these businesses and all but one farm had either unreported revenues or reported annual gross revenues of less than \$1.0 million. A steady decline in area businesses and farms contributes to fewer lending opportunities.

According to bank management, the bank's farm lending is more concentrated in their Mart (McLennan County) and Rosebud (Falls County) branches, both of which are situated in middle-income CTs. Important to note; however, these branches did not become part of the bank branch network until after the January 2016 acquisition as discussed in the "Description of the Institution" section of this PE. Large middle-income CTs surround both of these branches. Falls County, which is 67 percent rural and largely agriculture-based, comprises one low-income (4.00), one moderate-income (3.00), and four middle-income CTs. Marlin, a city of approximately 6,000 and the county seat, is represented by the one low- and one moderate-income CT. Marlin is located more than 20 miles to the north of the Rosebud branch and 30 miles to the east of the bank's Waco branch. As such, the bank's lending opportunities in the LMI geographies are limited by the bank's proximity to these geographies and the limited number of farms (8) reported by Dun & Bradstreet to exist in 2016. Additionally, the existence of branch offices of larger state and regional banks in the city of Marlin make for a very competitive market for the few farms that do exist.

Limited lending opportunities in McLennan County are also attributed to the bank's proximity to LMI geographies, which tend to be concentrated in the north and northeast portions of Waco. With the decline in businesses/farms reported by Dun & Bradstreet since 2014, the number of McLennan County farms have reduced in the low-income CTs to nine and in moderate-income CTs to 50. In some cases, farm loan demand is being met by local offices of national, community, and farm/ag banks operating closer in proximity to the LMI geographies.