



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

September 8, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Central Texas
Charter Number: 5850

1835 North Valley Mills Drive
Waco, Texas 76702

Office of the Comptroller of the Currency
Southern District
San Antonio – North Field Office
10001 Reunion Place, Suite 250
San Antonio, Texas 78216

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with the safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated “Satisfactory.”

The Lending Test is rated: “Satisfactory.”

The Community Development Test is rated: “Satisfactory.”

First National Bank Central Texas' (FNBCT) lending and community development tests are satisfactory given its size, financial condition, and the known credit needs in its assessment area (AA), which warrants an overall CRA rating of satisfactory.

- FNBCT's loan-to-deposit ratio (LTD) of 95% is above average. The LTD ratio is outstanding considering the extremely competitive environment in which it operates, lending opportunities, and financial condition of the bank.
- The vast majority of loans were made within the bank's AA.
- FNBCT demonstrates a poor penetration of loans to low- to moderate-income (LMI) families and families residing in LMI census tracts (CTs). The lending test showed penetration substantially below area demographics.
- FNBCT demonstrates a willingness to lend to businesses of different sizes, and those located within LMI geographies. All loans reviewed in the commercial sample were to businesses with revenues of less than \$1 million. The bank exceeds standards when lending to businesses within LMI tracts.
- Bank management is active in the community, which is demonstrated by their involvement with the Waco Community Development Corporation, NeighborWorks, Habitat for Humanity, and Adopt-A-School programs.

Scope of Examination

FNBCT was evaluated according to intermediate small bank examination procedures, which include lending and community development tests. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The two largest loan products as of June 30, 2011, were commercial and residential real estate. These two products represent 86% of the bank's total lending.

The residential and commercial real estate (CRE) lending test for FNBCT covers its performance from January 1, 2009, through June 30, 2011, and is representative of its lending strategy since the last CRA examination dated December 11, 2007. The bank is located within a metropolitan statistical area (MSA), and therefore is a Home Mortgage Disclosure Act (HMDA) reporter. However, the integrity of the bank's HMDA data was determined to be unreliable. A sample was pulled at the bank to test residential real estate.

Description of Institution

FNBCT is an intrastate bank headquartered in Waco, Texas. As of June 30, 2011, assets total \$570 million. The bank is 100% owned by First Centralia Bancshares, Inc., a single-bank holding company. FNBCT has five locations including branches in Waco, Woodway-Hewitt, China Spring, Mart, and Hillsboro. Each location offers standard banking services Monday through Friday with limited hours on Saturday offered only at the Hillsboro branch. Automated teller machines (ATMs) are available at all branch locations. Additional ATMs are located in two Hillcrest Hospital facilities in the Waco area. Drive-through banking services are offered at all branches.

There are no legal, financial, or other factors hindering the bank's ability to meet the credit needs in its AA. The previous CRA examination, dated December 11, 2007, also rated FNBCT "Satisfactory" under intermediate small bank criteria.

As of June 30, 2011, loans totaled approximately \$441 million, which is approximately 77% of total assets. A summary of the loan portfolio is as follows:

Loan Portfolio Summary by Loan Product June 30, 2011		
Loan Category	Dollar Volume \$(000)	% of Outstanding Dollars
Commercial (Including Real Estate)	\$288,698	65.46%
Residential	\$88,471	20.06%
Agricultural/Farm	\$26,616	4.34%
Consumer	\$19,139	6.04%
Other Loans	\$18,082	4.10%
Total	\$441,006	100.0%

FNBCT offers standard deposit and loan products. Personal account options include First Free Checking, First Interest Checking, First Prime Checking (for customers over 50 years of age), and two money market account options. The bank also offers standard savings and time accounts including an Individual Retirement Account (IRA). FNBCT also offers standard checking accounts for commercial customers. Other products and services include debit cards, Internet banking, remote deposit capture, and merchant cards services. Loan products include various types of commercial, consumer, and mortgage lending.

Description of Assessment Area(s)

The Community Reinvestment Act (CRA) requires a financial institution to define the AA in which it will be evaluated. FNBCT has two AAs. The first AA consists of McLennan County, which includes the Waco MSA. The second AA consists of Hill County, which is not part of the MSA. Combined, the two AAs cover 63 CTs ranging from low- to upper-income. However, Hill County makes up only 9% of total deposits, and 2% of overall lending activity. Due to the low percentage of lending in Hill County, it was excluded from the lending test.

McLennan County

McLennan County is the more densely populated county with 235 thousand residents according to 2010 Census information. See the table below for demographic information.

Demographic Information for First National Bank of Central Texas Assessment Area					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (CTs)	51	9.8%	27.45%	31.37%	31.37%
Population by Geography	213,517	10.94%	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	14,521	4.05%	27.62%	28.84%	39.49%
Farms by Geography	738	1.08%	8.54%	44.72%	45.66%
Family Distribution by Income Level	53,122	20.68%	17.54%	21.36%	40.42%
Household (HH) Distribution by Income Level	78,926	25.33%	15.07%	17.82%	41.78%
Census Median Family Income (MFI)		\$41,455	Median Housing Value		\$62,261
HUD – Adjusted MFI: 2010		\$51,900	HHs Below the Poverty Level		17.63%
HUD – Adjusted MFI: 2009		\$51,700	Unemployment Rate		4.76%
HUD – Adjusted MFI: 2008		\$48,200			

FNBCT operates in an extremely competitive banking environment in Waco, Texas. According to 2010 demographic data, McLennan County consists of about 85 thousand households of which 56% are owner-occupied and 37% are rentals. The median housing value is \$62 thousand. Of the 51 CTs, 9.8% are low-income, 27.45% are moderate-, 31.37% are middle-, and 31.37% are upper-income. Therefore, about 36% of households are located in LMI CTs. The area exceeds the national poverty statistics with almost 18% of those households living below the poverty level. However, the unemployment rate is lower than national and state averages at 4.76%. One whole CT is made up of a VA hospital; therefore, lending opportunities in this moderate-income CT is limited.

The main employers in the area include Providence Health Centers, Baylor University, Waco ISD, City of Waco, and Hillcrest Health Systems. Higher education and the health care continue to be the main industries for the area. Several colleges call Waco home including the previously-mentioned Baylor State Technical College, and McLennan Community College. Other large employers are HEB, Wal-Mart, and Sanderson Farms, Inc. Of the 15 thousand businesses, 89% are single locations with their sole operation located in McLennan County. The majority of businesses (78%) have revenues under \$1 million.

In conducting this assessment of FNBCT's performance, we conducted two community contacts with Waco Community Development Center and NeighborWorks. Our contact with Waco Community Development Corporation works with FNBCT on many levels to help LMI first-time homebuyers. According to the contact, bank management is very active in the community and responsive to credit needs. The NeighborWorks contact had a similar perception in that it does meet the credit needs of its community by helping to better neighborhoods through home ownership.

Hill County

Hill County is a less densely populated area with a population of only 35 thousand. See the following table for demographics.

Demographic Information for First National Bank of Central Texas Assessment Area					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (CTs)	12	0%	16.67%	75%	8.83%
Population by Geography	32,321	0%	13.54%	76.48%	9.97%
Owner Occupied Housing Units by Geography	9,149	0%	7.86%	82.34%	9.80%
Businesses by Geography	2,494	0%	14.07%	75.62%	10.3%
Farms by Geography	201	0%	1%	82.09%	16.92%
Family Distribution by Income Level	8,823	18.98%	17.35%	22.08%	41.58%
Household (HH) Distribution by Income Level	12,234	24.46%	14.66%	18.37%	42.51%
Census Median Family Income (MFI)		\$36,380	Median Housing Value		\$54,410
HUD – Adjusted MFI: 2010		\$46,500	HHs Below the Poverty Level		15.46%
HUD – Adjusted MFI: 2009		\$45,600	Unemployment Rate		2.75%
HUD – Adjusted MFI: 2008		\$43,600			

Hill County is mostly rural. The largest community is the city of Hillsboro with a population of about 9 thousand. There are about 12 thousand households in the AA ranging from low to upper income. About 39% of households are considered LMI. The local economy is considered stable with an unemployment rate of 2.75%. Major employers in Hill County include the Hillsboro Outlets, Hillsboro ISD, the City of Hillsboro, and Hill College.

Due to the low amount of lending FNBCT does within Hill County and the low percentage of deposits derived from the branch within the county, Hill County will be excluded from our lending test.

Conclusions with Respect to Performance Tests

LENDING TEST

FNBCT's performance under the Lending Test is rated "Satisfactory." The review focused on residential real estate and commercial lending in McLennan County. Poor performance was noted for penetration to LMI families and dispersion among LMI CTs for residential real estate. However, outstanding ratings were given for the bank's LTD ratio, penetration to commercial borrowers with revenues less than \$1 million, and commercial borrowers within LMI CTs. Overall, the bank's lending test merits a satisfactory rating under CRA standards.

Loan-to-Deposit Ratio

The LTD ratio has been averaged over the past eighteen quarters since the last CRA examination. FNBCT's LTD ratio is well above comparable banks at 95%. Performance is considered excellent given its asset size, financial condition, and lending opportunities within its AA. The average of the other institutions is 74%. Central National Bank, which is the most similar in size, has an average LTD ratio of 85%.

See the table below for data.

INSTITUTION	ASSETS \$(000s) As of 3/31//2011	AVERAGE QUARTERLY LTD RATIO As of 3/31/2011
First National Bank of Central Texas	\$578,837	95.32%
Alliance Bank of Central Texas	\$194,629	87.10%
Central National Bank	\$600,489	85.43%
Community Bank & Trust	\$393,018	79.18%
American Bank, NA	\$370,763	76.51%
Texas First State Bank	\$287,507	43.87%

Lending in Assessment Area

The vast majority of the number and dollar amount of loans were made within the AA. Out of the first 20 loans reviewed in the commercial sample, only 2 were found to be outside the bank's AA. The residential real estate sample resulted in an 80% penetration inside the AA. A total dollar volume of \$6.3 million was reviewed in both samples. About 92%, or \$5.8 million, of the total dollar amount of loans were inside the AA. Overall, the bank is doing an outstanding job of allocating their lending within their AA. The following table illustrates the results of our analysis.

Table 1 - Lending in McLennan County										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	18	90%	2	10%	20	3,492,694	96.54%	125,000	3.46%	3,617,694
Residential RE	16	80%	4	20%	20	2,341,099	86.97%	350,898	13.03%	2,691,988
Totals	34	85%	6	15%	40	5,833,793	92.46%	475,898	7.54%	6,309,682

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

Residential Real Estate

HMDA data was not used in our review. Based on the bank's independent HMDA data verification report, it was decided we could not rely on that information. Therefore, a residential real estate sample was pulled while onsite. The distribution of residential real estate loans reflects poor penetration among borrowers of different income levels. Loans originated to LMI borrowers are far below demographic data. The sample showed 0% of loans reviewed were to low-income borrowers, and 5% were to moderate-income borrowers. However, demographic data shows 20.68% and 17.54% of families are low- or moderate-income, respectively. The less-than-satisfactory penetration is a result of low loan demand and limited lending opportunities within the AA. The bank displayed poor penetration to LMI borrowers and therefore needs improvement in this area.

The following table details the bank's performance as compared to the percentage of households in each CT income level.

Table 2 – Borrower Distribution of Residential Real Estate Loans in McLennan County								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Residential Real Estate	20.68%	0%	17.54%	5%	21.36%	10%	40.42%	85%

Commercial Loans

The distribution of loans to businesses exceeds the standards set forth by CRA regulations. Based on our sample, 100% of the number and dollar volume of loans were made to businesses with revenues below \$1 million. Demographic data showed that about 77% of businesses in the AA had revenues below \$1 million. FNBCT's performance displayed excellent penetration among small businesses and is considered to be outstanding.

The following table details the bank's performance as compared to the percentage of businesses below the \$1 million threshold.

Table 2A – 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	77%	4%	19%	100%
% of Bank Loans in AA by #	100%	0%	-	100%
% of Bank Loans in AA by \$	100%	0%	-	100%

Geographic Distribution of Loans

Waco MSA Assessment Area

Residential Real Estate

Again, HMDA data was not used in our review. Based on the bank's independent HMDA data verification report, it was decided we could not rely on that information. Therefore, a residential real estate sample was pulled while onsite. The geographic distribution of loans to LMI geographies is poor. Demographic data shows 4.8% of owner-occupied housing within the AA are in low-income CTs. However, no loans in our sample were located in these tracts. Additionally, 18.68% of owner-occupied housing is located in a moderate income CT, but no loans were originated to borrowers in these tracts. The sample showed poor dispersion within LMI tracts, and therefore, the bank needs to improve in this area.

See the table on the following page for findings.

Table 3 – Geographic Distribution of Residential Real Estate Loans in McLennan County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans
Residential Real Estate	4.80%	0%	18.68%	0%	36.55%	40%	39.97%	60%

Commercial Loans

Geographic distribution of loans to businesses in McLennan County is excellent. FNBT exceeds standards for lending to businesses located in LMI CTs. Based on our sample, 10% of loans to businesses were made in low-income CTs. Demographic data showed only 4.5% of businesses were located in low-income CTs. Additionally, demographic data showed 27.62% of businesses are located in a moderate-income level CT, and the sample showed 30% of loans were to businesses located in a moderate-income CT. The bank displays outstanding performance in lending to business located in LMI CTs.

Table 3A – Geographic Distribution of Loans to Businesses in McLennan County								
CT Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of # of Loans	% of AA Businesses/ Farms	% of # of Loans	% of AA Businesses/ Farms	% of # of Loans	% of AA Businesses/ Farms	% of # of Loans
Business	4.05%	10%	27.62%	30%	28.84%	20%	39.49%	40%

Responses to Complaints

FNBT has received no complaints relating to its performance under CRA.

COMMUNITY DEVELOPMENT TEST

CD loans and services provided by FNBT are satisfactory given the bank's size, competitive environment in which it operates, financial condition, and the credit needs of the community.

Number and Amount of Community Development Loans

The bank is currently working with Waco Community Development Corporation (Waco CDC) and the Federal Home Loan Bank of Dallas for the Homebuyer Equity Leverage Partnership Program (HELP Program). This partnership has resulted in grants to 2 first-time home buyers since 2009. FNBT works with the Waco Neighborhood Housing Services (NHS) for a program called NeighborWorks to assist first-time home buyers. FNBT originates the loan and holds the first lien on a thirty-year fixed rate mortgage. NHS lends the borrower money for closing costs and holds a second lien on the property. The bank has originated 2 loans as part of this project.

Extent to Which the Bank Provides Community Development Services

The bank also works with the Waco CDC to help first-time borrowers save for their down payment. The bank holds deposits for the borrower until the down payment requirement is reached. The Waco CDC controls the accounts and borrowers are not allowed to withdraw funds while participating in the program. FNBCT also works with Habitat for Humanity and Adopt-A-School's Kinder to College program to educate students on financial responsibility.

Fair Lending or Other Illegal Credit Practices Review

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