



## INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

### **PUBLIC DISCLOSURE**

September 4, 2012

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

Extraco Banks, National Association  
Charter Number 13778

18 South Main Street  
Temple, TX 76501

Office of the Comptroller of the Currency  
Southern District  
San Antonio – North Field Office  
10001 Reunion Place, Suite 250  
San Antonio, TX 78216-4133

**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: Outstanding.**

- Extraco's lending performance is satisfactory given its size, financial condition, the known credit needs within its assessment areas (AAs) and relevant competitive factors.
- The bank's quarterly loan-to-deposit (LTD) ratio since the previous examination is above local peer institutions at **77%**.
- The majority of Extraco's loans are within its designated AAs.
- Extraco's distribution of business loans reflects a willingness to lend to businesses and farms of different sizes.
- Residential loan distribution in the bank's primary AAs needs improvement in low- and moderate-income (LMI) census tracts (CTs) and to borrowers of different income levels.
- Extraco's investments, community development lending, and community service activities have demonstrated an outstanding responsiveness to the needs of its primary AAs.

**Scope of Examination**

Extraco Banks, National Association (Extraco) was evaluated using Intermediate Small Bank (ISB) 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 lending activities. The Community Development Test evaluates the bank's responsiveness to the identified needs in its AA through lending, qualified investments, and services.

This review focused on the bank's primary loan products, which were determined to be business and real estate loans. We also reviewed small farm loans in the bank's rural non-metropolitan statistical area (MSA) AA. The review included all real estate loans submitted pursuant to the Home Mortgage Disclosure Act of 1975 (HMDA) in the years 2010-2011. Small business (CRA loan data) submitted to the FFIEC was also reviewed for the years 2010-2011. In some of the newer AAs, the review included HMDA and CRA data compiled through 2<sup>nd</sup> quarter 2012. We validated the integrity of the data and concluded that the data was reliable.

The evaluation period for the Community Development Test covers the period since the prior CRA evaluation dated August 31, 2009, to the start date of this evaluation, September 4, 2012.

Community Development loans, investments, and services submitted by management were verified to ensure they met the regulatory definition for community development.

Full scope examinations were performed in the Bell, Coryell, and Lampasas AAs, which represents the Killeen, Temple, Fort Hood (KTFH) and McLennan County MSAs. Together these AAs represent 93% of the bank's total deposit share. Due to the limited market share and branch network, only limited scope reviews were performed in the bank's three other AAs in Brazos, Hamilton and Williamson Counties.

## **Description of Institution**

Extraco is a full-service intrastate bank headquartered in Temple, Texas. As of June 30, 2012, the bank had total assets of \$1.2 billion and held \$118 million in Tier 1 capital, which represents 9.8% of total assets. Extraco is a wholly-owned subsidiary of Extraco Corporation, a one-bank holding company headquartered in Waco, Texas.

Extraco (an acronym for Exporters and Traders Compress) conducts business in 15 Central Texas communities and offers trust, insurance, financial services, mortgage, technology and a wide variety of traditional consumer and commercial banking services. Extraco also provides other financial services through its wholly-owned subsidiary, Extraco Community Development Corporation (ECDC), which makes loans and small donations in McLennan County, designed primarily to promote public welfare.

During this evaluation period, the bank opened 2 new branches, 1 in Bryan, Texas (May 2011) and the other in Lampasas, Texas (April 2011). The Lampasas location is in the KTFH MSA and the Bryan location is in the Bryan-College Station MSA.

Extraco closed 1 branch location, in Troy, Texas in July 2011. This banking center was located in the KTFH MSA. When the office closed, Extraco installed a new stand-alone iTM (instant teller machine), similar to an automated teller machine (ATM) and it provides 24/7 audio and video assistance.

Extraco has a total of 16 full service branches, 33 iTMs or ATMs in 5 AAs. Of the 33 ATMs/iTMs, 15 are in stand-alone locations. The majority of Extraco's offices are located within Bell County in the KTFH MSA.

There are 5 offices in the Waco MSA and 1 stand-alone iTM. In Georgetown, Texas, Extraco has 1 full service branch and 1 mortgage center. Georgetown is part of the Austin-Round Rock MSA. The bank has also 1 office in Hamilton, Texas, which is in Hamilton County, a non-MSA. Extraco insurance companies are located in Lampasas and Marble Falls, Texas. Additionally, the bank has a mortgage office in Corpus Christi, Texas.

The bank offers a full range of consumer and commercial banking products and services, in addition to providing loans to the agricultural community. The bank offers its customers Internet banking through [www.extracobanks.com](http://www.extracobanks.com), which allows them to obtain daily deposit balances, verify transactions, download statements, transfer funds between deposit accounts, and pay bills. Customers may also use mobile banking and mobile remote deposit capture with a personal cell phone device. The bank also offers 24-hour telephone access to transfer funds, verify transactions,

and check daily deposit balances. Remote deposit capture and merchant processing services are also available to commercial customers. Lobby and drive-through hours are set by location to meet customer needs.

As of June 30, 2012, Extraco reported total loans of \$665 million, or 55% of total assets. The bank's primary focus consists of both real estate and commercial lending. The table below details the bank's loan portfolio composition.

<b>Loan Portfolio Composition</b>		
<b>LOAN TYPE</b>	<b>DOLLAR AMOUNT \$ (000)</b>	<b>% of TOTAL LOANS</b>
Real Estate (RE) Residential (1-4)	205,832	31%
RE Nonfarm Nonresidential	239,958	36%
RE Construction, Land Development	33,746	5%
Consumer	36,466	5%
Agriculture Production	4,653	1%
Commercial and Industrial	48,086	7%
RE Farmland	18,494	3%
Multi-family	19,045	3%
Obligations of States & Political Entities	46,594	7%
Other	12,007	2%
<b>TOTAL</b>	<b>664,881</b>	<b>100%</b>

There are no legal, financial, or other factors impeding Extraco's ability to help meet the credit needs in its AA. There have been no significant changes to Extraco's corporate structure, including merger or acquisition activities since the last CRA examination. Extraco received a "Satisfactory" rating on its last Performance Evaluation, using intermediate-small bank procedures, dated August 31, 2009.

### **Description of Assessment Area(s)**

Extraco has 5 AA's consisting of the Bell, Coryell and Lampasas Counties (KTFH MSA), Waco MSA (McLennan County), Williamson County AA (Austin-Round Rock MSA), Bryan County (Bryan-College Station MSA), and Hamilton County AA (non-MSA).

The KTFH MSA and the Waco MSAs were selected for a full-scope review as the substantial majority of the bank's reported loans and deposits are within these two AAs.

The other three AAs were given a limited-scope review. The Williamson County AA (Austin-Round Rock MSA) consists of 5 contiguous CTs that include the city of Georgetown, Texas. The Hamilton County AA includes three CTs that make up Hamilton County, a non-MSA. The Brazos County AA includes the city of Bryan, Texas and 42 contiguous CTs.

**Description of Bell, Coryell and Lampasas Counties AA (KTFH MSA)**

This AA includes the cities of Temple, Belton, Salado, Killeen, Harker Heights, Copperas Cove, Gatesville and Lampasas, Texas. Fort Hood, adjacent to Killeen and Coryell County, is one of the largest active duty armored posts in the U.S.

Extraco operates 8 banking centers and 14 stand-alone iTMs/ATMs in this MSA. The majority (5) of the banking centers and iTMs (13) are in Bell County. In Coryell County, there are 2 banking centers and 1 stand alone ATM. In Lampasas County there is 1 banking center.

The AA is comprised of 62 contiguous CTs within the 3 counties. There are 1 low-income geography, 13 moderate-income, 36 middle-income, and 12 upper-income geographies. The AA designations meet the requirements of the regulation and do not arbitrarily exclude LMI areas.

<b>Demographic Information for Bell, Coryell, and Lampasas Counties (KTFH MSA)</b>						
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>	<b>N/A* % of #</b>
Geographies (CTs/BNAs)	62	1.61	20.97	58.06	19.35	0.00
Population by Geography	330,714	.71	17.12	60.90	21.27	0.00
Owner-Occupied Housing by Geography	63,413	.17	8.68	61.34	29.81	0.00
Business by Geography	32,123	2.66	14.20	53.61	29.54	0.00
Farms by Geography	1,397	.64	7.16	54.55	37.65	0.00
Family Distribution by Income Level	82,987	17.01	19.97	23.75	39.27	0.00
Distribution of LMI Families throughout AA Geographies	30,683	1.44	23.53	61.50	13.53	0.00
Median Family Income (MFI)		40,972	Median Housing Value			
HUD Adjusted MFI for 2009		55,900	Unemployment Rate			72,483
Households Below Poverty Level		11%	(2000 US Census)			2.56%

(\*) The N/A category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2011 HUD updated MFI

Overall, economic conditions within this AA continue to fare better than the national economy although the economy has slowed somewhat since the previous CRA examination. For the past 3 years, the Milken Institute has ranked the KTFH MSA as one of the top 5 best-performing metro areas in the nation as measured by job, wage and technology growth. Based on 2010 Census data, the AA has a population of approximately 405 thousand, which is a 23% growth rate since 2000. Bell County, with a 29% population growth rate, is the highest growth area of the MSA.

In September 2012, the Texas A&M Real Estate Center reported moderate employment growth in the AA at .4%, which was below the state average of 2.5%. There has been some weakness in the area's retail sales which have declined since 2008. In 2011, the Texas Comptroller's Office reported retail sales of approximately \$4.4 billion as compared to \$5.7 billion in 2008. However, some improvement was noted in first quarter 2012 with an 11% increase in retail sales.

The medical, logistics, and military sectors continue to lead growth in KTFH MSA. The Fort Hood military base is an integral part in the continued growth of the economy as the largest single site employer in the MSA. The Texas State Comptroller estimates Fort Hood's economic impact to central Texas to be approximately \$11 Billion. In September 2012, Fort Hood's supported population was approximately 385 thousand, including post population, retirees, and family members.

Other major employers in the AA include: Scott and White Memorial Hospital and Clinics, Central Texas Veterans Health Care System, and Central Texas College in Killeen. Large distribution and manufacturing companies such as: McLane Company Inc., Fikes Wholesale, Inc. (commercial fuel distributor), Wilson Art International (laminated products), Pactiv Corporation (plastic manufacturing), a Wal-Mart distribution center, as well as defense contractors, call centers, local governments and school districts are also major employers. The distribution of employment in major categories includes the government, trade, transportation, and utilities, followed by education and health care services.

According to the US Bureau of Labor Statistics, in August 2012, the seasonally-adjusted unemployment rate for the nation was 8.1%, which is down from 9.1% in August 2011. For the same period, the unemployment rate for the state of Texas was 7%, which is also down from 8.2% in the prior year. The KTFH MSA unemployment rates are below national averages, but slightly higher than state averages with an unemployment rate of 7.7% in August 2012, down from 8.5% in the prior year.

Extraco operates in a very competitive environment with larger regional banks, community banks, credit unions, and finance companies operating in its market. The FDIC market share survey report for June 30, 2012, indicates that 24 financial institutions operate branches within the bank's AA. Extraco ranks first among the total group of banks for deposit market share with 17.37%. First National Bank Texas, in Killeen follows with 11.08% and First State Bank Central Texas, Compass and National Bank, Gatesville all have approximately 10% of the deposit share.

Four community contacts for the KTFH MSA were considered during this evaluation. Two were performed earlier this year and two were conducted during this evaluation. The organizations contacted support affordable housing programs, small business, and economic development in the MSA. Prior comments regarding Extraco's and community bank participation in SBA government guaranty programs were favorable. Prior contacts also indicated that there are many opportunities to help LMI individuals within the Temple area, particularly in regards to affordable housing solutions. Contacts during this evaluation mentioned a need for improved understanding by all area banks of the resources available to small start-up businesses and to help provide funds to support credit counseling and education for small businesses. Contacts also mentioned a need for greater flexibility and innovation to make small business loan products more attractive.

### **Description of Waco MSA (McLennan County)**

The Waco MSA is comprised of McLennan County, which is located in Central Texas. Waco is the largest city in the County and is the County seat. Waco, approximately 90 miles south of Dallas/Fort Worth and 100 miles north of Austin is centrally located between major metropolitan areas on

Interstate 35. Extraco operates 5 banking centers in the Waco MSA and 1 stand-alone iTM. The AA is made up of 51 CTs, which surround and include each banking office. There are 5 low-income geographies, 14 moderate-income, and 16 middle- and upper-income geographies. The AA designations meet the requirements of the regulation and do not arbitrarily exclude LMI areas.

<b>Demographic Information for Waco MSA</b>						
<b><i>Demographic Characteristics</i></b>	<b><i>#</i></b>	<b><i>Low % of #</i></b>	<b><i>Moderate % of #</i></b>	<b><i>Middle % of #</i></b>	<b><i>Upper % of #</i></b>	<b><i>N/A* % of #</i></b>
Geographies (CTs/BNAs)	51	9.80	27.45	31.37	31.37	0.00
Population by Geography	213,517	10.94	25.71	31.10	32.24	0.00
Owner-Occupied Housing by Geography	47,463	4.80	18.68	36.55	39.97	0.00
Business by Geography	21,430	3.94	24.81	28.32	42.93	0.00
Farms by Geography	1,076	1.39	8.74	47.30	42.57	0.00
Family Distribution by Income Level	53,122	20.68	17.54	21.36	40.42	0.00
Distribution of LMI Families throughout AA Geographies	20,304	15.58	34.97	32.17	17.28	0.00
Median Family Income (MFI)		41,455	Median Housing Value			62,261
HUD Adjusted Median Family Income for 2009		54,700	Unemployment Rate			3.64%
Households Below Poverty Level		18%	(2000 US Census)			

Source: 2000 US Census and 2011 HUD updated MFI. (\*) The N/A category consists of geographies that have not been assigned an income classification.

The Waco MSA population has maintained a steady growth rate since 1990. The 2010 census data reported population of 234,906; reflecting a 10% growth rate over the past ten years. Job growth in the area has been moderate the past year at .6% as reported in August 2012.

Major employers in the Waco MSA include Providence Health Center, Hillcrest and Scott & White Health Systems, Baylor University, Wal-Mart Distribution Center, HEB, Sanderson Farms, L-3 Communications (Aerospace), Waco and Midway ISD, and the City of Waco. The industry composition of the area is 19% education and health services, 17% government, and 17% trade, transportation, and utilities.

The unemployment rate in the Waco MSA has historically been lower than national and state averages. According to the US Bureau of Labor Statistics, the unemployment rate for the Waco MSA was 6.7% as of August 2012. This an improvement from 7.2% in the last performance evaluation period and it compares favorably to the national and state unemployment rates. Poverty levels in the Waco MSA, however, are higher than national averages. The 2010 census data reported that 20% of the area households were living below poverty levels.

The Waco MSA is an extremely competitive environment filled with larger regional banks and community banks. The FDIC market share survey report for June 30, 2012, indicates that 25 institutions operate branches within the bank’s AA. Extraco ranks 9<sup>th</sup> among the total group of banks with a deposit market share of 4.72%. Wells Fargo Bank, NA, ranks 1<sup>st</sup> with a 12.90% deposit market share and First National Bank of Central Texas ranks 2<sup>nd</sup> with a 12.17% deposit market share.

Two community contacts in Waco were considered for this evaluation. One was performed during this evaluation and the other was performed in conjunction with a prior evaluation of another area bank. The organizations contacted were both involved with providing affordable housing solutions in the Waco area. Both of these contacts identified a need for affordable housing and longer term fixed rate loan programs. One contact mentioned a need for greater financial participation in Individual Development Account (IDA) programs by providing matching funds and providing staff to teach the first-time home buyer and other financial literacy classes. Contacts highlighted area mortgage company participation in longer term fixed rate programs, participation by another Waco bank in IDA programs, and referrals from Extraco. One contact also mentioned the need for participation in the VITA program, a free tax preparation program offered to LMI individuals.

## Conclusions with Respect to Performance Tests

### LENDING TEST

Extraco's performance under the Lending Test is satisfactory. The LTD ratio is reasonable and a majority of the bank's primary loan products are within its AA. Extraco's distribution of residential loans to borrowers of different income levels and in LMI CTs is below area demographics and needs improvement in some areas. The bank's distribution of small business loans reflects a reasonable distribution to businesses of all sizes and in all CTs within the AAs.

### Loan-to-Deposit Ratio

Extraco's LTD ratio is reasonable given the bank's size, financial condition, economic condition and AA credit needs. We reviewed the quarterly average LTD ratios for the quarters beginning June 30, 2009 through June 30, 2012. The bank's ratio averaged 77.06% over the last 13 quarters, with a high of 89% and a low of 67%. The bank's average LTD ratio compares favorably among community banks of similar size, locations, and product offerings. The other 11 peers and/or competitor banks had an LTD ratio averaging 59.48%, with a high of 88% and a low of 29%.

Bank Name	City, State	Average Quarterly LTD Ratio as of 6/30/2012
Extraco Banks, National Association	Temple, TX	77.06
First Texas Bank	Killeen, TX	39.79
Texas First State Bank	Riesel, TX	39.98
American Bank, National Association	Waco, TX	73.50
Community Bank and Trust	Waco, TX	82.84
Union State Bank	Florence, TX	47.28
First Texas Bank	Georgetown, TX	39.44
National Bank	Gatesville, TX	61.01
Central National Bank	Waco, TX	82.23
First National Bank of Central Texas	Waco, TX	88.33
First National Bank Texas	Killeen, TX	29.16
First State Bank Central Texas	Austin, TX	71.31

**Lending in Assessment Area**

A majority of the home mortgage, small business and small farm loans originated during the evaluation period were within the bank’s AAs. Extraco meets the standard for satisfactory performance for lending in the AA. An analysis of the HMDA and CRA loan data disclosed that 63% of the home mortgage, small business and farm loans were originated within the AAs with 57% of the total loan dollars in the combined AAs.

<b>Lending in Extraco’s AA</b>										
	Inside AA				Outside				Total	
	Count	%	\$ Amount	%	Count	%	\$Amount	%	Count	\$Amount
Home	1,290	55.41	\$184,391	52.85	1,038	44.59	\$164,530	47.15	2,328	\$348,921
Business	574	85.80	\$48,098	80.65	95	14.20	\$11,538	19.35	669	\$59,636
Farm	57	79.17	\$5,476	75.86	15	20.83	\$1,743	24.14	72	\$7,219
<b>Total</b>	<b>1,921</b>	<b>62.59</b>	<b>\$237,965</b>	<b>57.23</b>	<b>1,148</b>	<b>37.41</b>	<b>177,811</b>	<b>42.77</b>	<b>3,069</b>	<b>\$415,776</b>

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

Distribution of the bank’s residential mortgage loans in the AAs is below area demographics and needs improvement in some areas. Distribution of loans to small businesses reflects a reasonable penetration to businesses of all sizes.

**Bell, Coryell, Lampasas Counties AA (KTFH MSA)**

Extraco’s distribution of home purchase loans and refinancing among LMI borrowers is below comparative demographics. However, Extraco does have a reasonable distribution of home improvement loans in all income categories particularly with moderate-income borrowers, where the percentage of loans exceeds local demographic information.

**Residential Loans**

<b>Borrower Distribution of Residential Real Estate Loans in Killeen-Temple Fort Hood MSA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of #f Loans*	% of AA Families	% of # of Loans*	% of AA Families	% of # of Loans*	% of AA Families	% of # of Loans*
Home Purchase	17.01	3.52	19.97	13.82	23.75	27.64	39.17	55.01
Home Improvement	17.01	10.29	19.97	20.00	23.75	27.43	39.17	42.29
Refinance	17.01	3.16	19.97	10.76	23.75	23.42	39.17	62.66

Source: HMDA 2010-2011; 2000 U.S. Census data. (\*) Information is presented as a percentage of loans with borrower income available. For Home Purchase loans, no income information was available on 11.1%, Home Improvement Loans - 1.9%, and Refinances - 12.7%. These income numbers were properly identified on the HMDA Loan Application Register (LAR) as N/A.

When considering the performance context, including the 11% poverty rates and strong competition in this AA, especially those with underwriting standards that may not be as high as Extraco’s, the bank’s performance is understandable. Nevertheless, improvements are needed. The bank has extended several community development loans in this AA which also provide housing opportunities for LMI borrowers.

**Business Loans**

<b>Borrower Distribution of Loans to Small Businesses in Killeen-Temple Fort Hood MSA</b>				
<b>Business Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unavailable/ Unknown</b>	<b>Total</b>
% of AA Businesses	67.09%	1.57%	31.34%	100%
% of Bank Loans in AA by #	66.57%	24.36%	9.01%	100%
% of Bank Loans in AA by \$	56.30%	32.56%	11.15%	100%

*Source: Small Business CRA Loan Data; Dunn and Bradstreet data.*

The percentage of loans to businesses with revenues of less than \$1 million was 67%, approximately the same as the percentage of AA businesses. This distribution of loans is considered satisfactory given the bank’s profile, strong underwriting standards, and competitive environment.

**Waco MSA (McLennan County AA)**

Overall, Extraco’s distribution of home loans to families of varying income levels reflects a reasonable penetration, meeting the standard for satisfactory performance.

The bank’s performance for all loan types is below the demographic comparator for LMI borrowers; however, performance has improved since the previous evaluation period and the volume of home purchase and home improvement loans to moderate-income borrowers is only slightly below the AA demographic information.

The majority of the bank’s loans are to middle- and upper-income borrowers; however, the 20% poverty level impacts the ability of many low-income borrowers to qualify for a home purchase or refinance. Strong competition in the Waco MSA and Extraco’s conservative underwriting standards has also impacted demand for mortgage loans from LMI families.

<b>Borrower Distribution of Residential Real Estate Loans in McLennan Co AA</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan Type</b>	<b>% of AA Families</b>	<b>% of # of Loans*</b>	<b>% of AA Families</b>	<b>% of # of Loans*</b>	<b>% of AA Families</b>	<b>% of # of Loans*</b>	<b>% of AA Families</b>	<b>% of # of Loans*</b>
Home Purchase	20.68	3.55	17.54	13.48	21.36	17.02	40.42	65.96
Home Improvement	20.68	1.85	17.54	16.67	21.36	24.07	40.42	57.41
Refinance	20.68	1.52	17.54	7.58	21.36	10.61	40.42	80.30

*Source: HMDA 2010-2011; 2000 U.S. Census data. (\*) Information presented as percentage of loans with borrower income available.*

Extraco’s distribution of loans to small businesses reflects a reasonable penetration among businesses of different sizes. The percentage of loans originated to businesses with revenues less than \$1million (65%) is just slightly below AA demographic information which reports that 68% of the businesses have less than \$1million in gross revenues. Very strong competition in the McLennan County AA also affects the bank’s lending performance in this market.

<b>Borrower Distribution of Loans to Businesses in McLennan Co AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	68.04%	2.84%	29.13%	100%
% of Bank Loans in AA by #	64.75%	21.58%	13.67%	100%
% of Bank Loans in AA by \$	47.75%	34.92%	17.34%	100%

*Source: Small Business CRA Loan data; Dunn and Bradstreet data.*

**Limited Scope AAs – Williamson, Hamilton and Brazos Counties**

The distribution of all real estate loans among low-income borrowers in Williamson, Hamilton, and Brazos counties was consistent with Extraco’s performance in its primary AAs. However, home purchase and refinancing among the moderate-income families of Williamson and Hamilton Counties were very good, exceeding the percentage of AA families within these income levels. Home improvement loans in Hamilton County were distributed across all income categories. Although loan penetration was predominately among upper- and middle-income borrowers, home improvement loans to moderate-income borrowers was only slightly below AA demographics.

Extraco’s loan distribution to small farms in Hamilton County was excellent with 98% to small farms with revenues less than \$1million.

Very little consideration was given to the Brazos County AA as the bank has only been open since April 2011 and the bank’s AA was limited to one moderate-income CT until 2012.

**Geographic Distribution of Loans**

Extraco’s geographic distribution of residential loans needs improvement in LMI areas of its AAs. Business loan distribution throughout the AA is reasonable and meets the satisfactory standards when considering the performance context.

**Residential Loans**

***Bell, Coryell, Lampasas Counties AA (KTFH MSA)***

Extraco’s lending performance in LMI CTs of this AA is below comparative demographic information. However, there is only 1 low-income CT located in the far western portion of Bell County and the percentage of owner-occupied homes in this area is less than 1%, making opportunities for home improvement and refinancing very limited.

Poverty rates in this CT are also very high at approximately 30%, which would make it more challenging for many of the individuals in this area to qualify for a home loan.

As reflected below, home improvement lending in the moderate-income category is more closely in line with area demographics and reflects a reasonable distribution of loans.

Geographic Distribution of Residential Real Estate Loans in Killeen, Temple, Fort Hood MSA								
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	0.17	0.00	8.68	1.44	61.34	36.60	29.81	61.96
Home Improvement	0.17	0.00	8.68	6.18	61.34	56.18	29.81	37.64
Refinance	0.17	0.00	8.68	2.75	61.34	30.22	29.81	67.03

Source: HMDA Data 2010-2011, 2000 U.S. Census data.

**Business Loans**

Geographic Distribution of Loans to Businesses in Killeen, Fort Hood, Temple MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Businesses	2.66	.57	14.20	9.07	53.61	55.52	29.54	34.84

Source: 2010-2011 Small Business CRA Loan Data, Dun and Bradstreet 2011

The bank’s business loan distribution in the KTFH MSA is predominately in the middle- and upper-income CTs, where the majority of businesses are located. Loan distribution in LMI areas is slightly below local demographics. The majority of the bank’s full service branches in this AA are located in middle-income areas, which contributes in part to the concentration of lending activity in middle- and upper-income areas.

**Waco MSA (McLennan County AA)**

**Residential Loans**

As reflected in the chart below, Extraco has made all residential loan types in different areas of this AA; however, loan penetration is concentrated in the upper-income areas. The bank’s performance for all loan types in LMI areas is below AA demographics. Home improvement lending in the moderate-income areas is more closely aligned with AA demographics.

Geographic Distribution of Residential Real Estate Loans in the Waco MSA								
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	4.80	1.27	18.68	3.80	36.55	18.35	39.97	76.58
Home Improvement	4.80	1.82	18.68	16.36	36.55	18.18	39.97	63.64
Refinance	4.80	2.44	18.68	6.10	36.55	21.95	39.97	69.51

Source: 2010-2011 HMDA; 2000 U.S. Census data

Extraco does have a branch location in a moderate-income tract in the Waco MSA, which is adjacent to 2 low-income tracts and another moderate-income tract. This branch location indicates that the bank is attempting to serve the needs of the AA’s LMI population.

The central Waco banking center is adjacent to another moderate-income tract; however, the majority of the LMI tracts in this area are not particularly convenient to the bank’s branches. The bank has 2 licensed mortgage lenders servicing the entire Waco MSA. Strong competitive factors also affect the bank’s performance in these areas. The bank needs improvement in this area.

**Business Loans**

Extraco’s geographic distribution of business loans in the Waco MSA reflects a good dispersion of loans throughout the AA and meets the standard for satisfactory performance.

Geographic Distribution of Loans to Businesses in McLennan Co AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Businesses	3.94	4.3%	24.81%	23.02%	28.32	35.25	42.93	37.41

Source Dun and Bradstreet 2011

**Limited Scope AAs – Williamson, Hamilton and Brazos Counties**

A geographic distribution analysis in Hamilton County is not meaningful as the entire county is a middle-income area.

The bank’s residential lending performance in Brazos County through 1<sup>st</sup> quarter 2012 did show a very good distribution of home purchase and refinancing throughout the entire AA including LMI areas. However, our analysis in Brazos County did not carry as much weight due to the limited market share and the limited amount of data available for review.

Geographic Distribution of Residential Real Estate Loans in Brazos Co AA								
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	6.02	18.52	15.76	22.22	31.10	29.63	47.13	29.63
Home Improvement	6.02	0.00	15.76	0.00	31.10	0.00	47.13	0.00
Refinance	6.02	11.11	15.76	33.33	31.10	55.56	47.13	0.00

Source: June 30, 2012 HMDA, 2010 U.S. Census data.

In Williamson County, there are no low-income CTs and there is only 1 moderate-income CT in the bank’s AA. Extraco’s branch is located in an upper-income CT, which is adjacent to a moderate-income CT and upper- and middle-income areas. Extraco’s distribution of residential and business loans in this moderate-income CT is below the AA demographics. When considering the bank’s one location, strong competition and limited opportunities in this 1 moderate-income CT, the bank’s performance in this AA was considered reasonable.

**Responses to Complaints**

During the performance evaluation period, Extraco received a few complaints regarding closure of the banking center in Troy, TX. This location was closed in part due to expansion of Interstate-35, which forced Extraco to move the banking center. The low volume of activity from this location was another contributing factor. However, to help provide continued service to bank customers in this area, Extraco installed a stand-alone iTM in this community and purchased additional land for future expansion if needed to support growth in the area. Management’s response to the complaints was satisfactory. The bank’s customers in this area also still have access to full service banking centers in Lorena and Temple. The nearest location is approximately 8 miles.

**COMMUNITY DEVELOPMENT TEST**

Extraco’s overall performance under the Community Development (CD) Test is outstanding given the bank’s size, financial condition, competitive environment and the credit needs of the community. The bank’s performance demonstrates excellent responsiveness to the CD needs in its AAs through CD loans, investments and services. Extraco provided CD loans and investments in its AAs representing 14% of Tier 1 capital.

We gave more weight to performance in Bell County and the KTFH MSA as over 70% of the bank’s deposits are from this area; however, performance in Waco MSA was also considered strong given the bank’s market share in this area and the strong competition in this AA.

## **Number and Amount of Community Development Loans**

Qualified CD loans are those that meet the definition of CD as defined in the CRA regulation and do not include loans given consideration under the Lending Test.

### ***Lending Performance in the KTFH MSA***

Extraco originated and/or renewed 11 CD loans in the KTFH AA during the evaluation period totaling approximately **\$6.2 million**.

- \$893 thousand provided affordable multi-family housing solutions to LMI individuals and families.
- Four loans totaling \$4million provided financial support to a small farm business in the AA.
- Two small business loans totaling \$1.4 million were funded under government sponsored SBA small business programs. These loans provided additional jobs and supported small businesses in the AA.

The bank also made 3 loans totaling **\$3.4 million** to the Central Texas Certified Development Company to provide funding for additional government sponsored small business economic development loans within Central Texas.

### ***Lending Performance in the Waco MSA***

Extraco has originated and/or renewed 45 CD loans in the Waco MSA totaling **\$4.5 million**.

- Two of these loans, totaling \$1.8 million supported affordable housing for moderate-income individuals and families.
- Two renewed loans to a local non-profit entity totaling \$2.3 million provide community services in a low-income area of the community.
- Three new loans and one renewal to the Waco Community Development Corporation (Waco CDC) totaling \$120 thousand providing affordable housing in LMI areas of the community.
- Extraco also participates in special home buyer equity and down payment programs sponsored by the Federal Home Loan Bank of Dallas (FHLB). During the evaluation period, Extraco funded 15 loans totaling \$98,000 under the Homebuyer Equity Leverage Partnership Program (HELP), which provides grant funds for down payment and closing costs of eligible first-time homebuyers.
- Extraco funded 17 loans totaling \$77,000 under FHLB's Special Needs Assistance Program (SNAP), which provides grant funds for rehabilitation costs of eligible special needs homeowners.
- Five loans totaling \$41,000 have also been provided to the Habitat for Humanity for the construction of LMI housing.

**Limited Scope AAs**

CD lending in other AAs has been limited; however, Extraco has supported these other areas with investments and services.

**Number and Amount of Qualified Investments**

Investments, deposits, membership shares, or grants that have CD as their purpose are defined as “qualifying investments” in the CRA regulation. Qualified investments support community services targeting LMI families and individuals. Extraco has made numerous investments, grants, and donations to organizations providing community services to LMI individuals and families in each AA. Total CD investments approximate **\$2.7 million**.

In the KTFH and McLennan County AAs, qualified investments for the evaluation period exceed **\$200,000**. In the other AAs, qualified investments represented an additional \$29 thousand.

Extraco has also invested **\$1.5 million** in a qualified investment fund, Access Capital Community Investment Fund, which provides affordable housing in the bank’s AAs.

Additionally, Extraco has invested **\$1 million** in a small business investment company, Valesco Commerce Street Capital Fund, which serves a broader southern region area of the United States.

***Investment Performance in the KTFH AA***

In the KTFH AA, Extraco has invested over \$100,000 in organizations such as the United Way of Central Texas, Central Texas Children’s Center (daycare), Killeen Food Care Center, Temple Free Community clinic, which provides free health services, Ralph Wilson Youth Clubs, Heart of Texas Goodwill Industries program providing support for free income tax preparation, and the YMCA Armed Services.

***Investment Performance in the McLennan County AA***

In the McLennan County AA, Extraco has financially contributed to organizations such as the United Way of Central Texas, the Waco Community Development Home Counseling Program, YMCA of Central Texas, home owner education programs for Habitat for Humanity, the Family Abuse Center, and the Heart of Texas Community Health Center, Inc., providing essential health services to LMI individuals in McLennan County.

***Limited Scope AAs***

All AAs have financially contributed to various hospital foundations, which provide support to LMI individuals and to organizations providing scholarships and other essential services to LMI individuals. Additionally, all AAs have contributed to the Independent Bankers’ Association Education Foundation, which supports financial literacy programs in schools.

## **Extent to Which the Bank Provides Community Development Services**

Qualified CD services must meet the definition of “Community Development” in the CRA regulation and must be related to providing financial services to qualified individuals or organizations. Extraco bank serves many community organizations in its AAs, providing qualified CD services to its communities. The bank has a website specifically dedicated to its community services: <http://www.extracogolocal.com/>

### ***Service Performance in the KTFH AA***

Most qualifying CD services involve the bank partnering with an organization to provide financial education to LMI individuals. Extraco employees partner with in-need schools to mentor and teach financial skills to children and young adults.

Extraco employees have also been Board members of approximately 10 different organizations providing CD services in the AA. Some of these organizations include: the Habitat for Humanity, Killeen Downtown Partnership Committee, Killeen Food Care Center, Belton Christian Youth Center, the Central Texas Housing Consortium/Temple Housing Authority, and the Temple ISD Education Foundation.

### ***Service Performance in the McLennan County AA***

Service in the McLennan County AA is similar to KTFH; involving partnerships and/or participation in programs providing financial education and literacy skills to children and young adults. In the McLennan County AA, bank employees have also been involved with providing home ownership educational services provided in coordination with NeighborWorks Waco Home Buyer's Education Program and the Waco Housing Authority.

Extraco employees in the McLennan County AA serve as Board or advisory members on over 15 different community organizations providing CD services. These organizations include but are not limited to: Caritas of Waco, City of Waco Public Improvement District (PID), Family Abuse Center, Texas State Affordable Housing Corporation, and the Waco Metropolitan Planning Organization. Extraco employees also serve on the Habitat for Humanity committee involved in loan funding and investment decisions and an Extraco lender also serves as a Board member for the Texas Certified Development Corp d/b/a Business & Community Lenders of Texas, whose primary purpose is to increase employment and economic development by stimulating the flow of capital and modernization of small businesses in central Texas.

### ***Limited Scope AAs***

Extraco's performance in the other AAs is consistent with KTFH and McLennan County. Employees in these areas are involved in various CD services.

**Responsiveness to Community Development Needs**

Extraco's CD activities as a whole, demonstrate outstanding responsiveness to the needs and opportunities in the bank's AAs. Extraco's \$1.5 million investment in the Access Capital Community Investment Fund provides affordable housing in the bank's primary AAs.

CRA loan data for the years 2010-2011 indicates that in response to needs for small business lending, Extraco originated \$27 million in loans to small businesses within all of its AAs.

Also, in response to identified needs, Extraco has also participated in free income tax preparation services in both KTFH and McLennan County AAs.

Extraco is involved in numerous CD organizations within its AAs supporting financial education, affordable housing, and community services to LMI individuals and families.

***Performance in the KTFH AA***

In response to identified affordable housing needs, Extraco has provided approximately \$893 thousand for affordable housing in Killeen. Extraco's employees have also participated in educational programs providing financial literacy and education for housing related programs sponsored by the Temple Housing Authority. The Central Texas Housing Consortium specifically recognized Extraco for their participation on the Board, provision of onsite banking services to low-income seniors, and financial education services.

CRA loan data indicates that Extraco funded over \$15 million to small businesses in this AA during 2010-2011. Additionally, Extraco has funded over \$5 million to small businesses under government sponsored small business programs.

***Performance in the McLennan County AA***

In the McLennan County AA, Extraco has specifically responded to identified needs through participation in financial educational programs for housing related organizations such as the NeighborWorks Waco Home Buyer's Education Program, Habitat for Humanity, and the Waco Community Development Home Counseling Program.

Extraco has also made community development loans totaling over \$1.8 million for affordable housing needs. Additionally Extraco participates in FHLB grant programs to help provide equity for first-time home buyers. Extraco's employees are actively involved as Board members in several organizations supporting affordable housing needs.

CRA loan data also indicates that Extraco funded approximately \$7 million in small business loans in the McLennan County AA 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 credit needs.