



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

JUNE 25, 2012

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

CENTRAL NATIONAL BANK
Charter Number 16626

8320 US Highway 84 West
Waco, TX 76712

Comptroller of the Currency
San Antonio – North Field Office
10001 Reunion Place, Suite 250
San Antonio, Texas 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 COMMUNITY REINVESTMENT ACT RATING:
THIS INSTITUTION IS RATED "SATISFACTORY."**

The Lending Test Rating: "Satisfactory."

The Community Development Test Rating: "Outstanding."

Central National Bank (CNB) has demonstrated lending performance that is satisfactory given its size, financial condition, and the known credit needs within its assessment area (AA).

- The bank's quarterly loan-to-deposit (LTD) ratio is excellent in relation to peer institutions, averaging 83% since the prior evaluation.
- A substantial majority of CNB's loans are within the bank's AAs. Approximately 87% of the number and 81% of the dollar volume of loans were to borrowers within the bank's AAs.
- CNB's loan portfolio demonstrates a poor penetration of loans to low- to moderate-income (LMI) populations. The lending test showed penetration substantially below area demographics.
- CNB demonstrates a reasonable distribution of loans to businesses of different sizes and those located within LMI geographies.
- CNB's performance continues to demonstrate overall outstanding responsiveness to the community development (CD) needs of its primary AA.

SCOPE OF EXAMINATION

We evaluated CNB's Community Reinvestment Act (CRA) performance under the Intermediate Small Bank examination procedures, which include a lending test and a CD test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The current review focused on the bank's primary loan products, which includes all commercial-related loans from January 1, 2010, through December 31, 2011. In addition, our review focused on residential real estate loans as reported for the Home Mortgage Disclosure Act of 1975 (HMDA) in the years 2010 and 2011. A data integrity review of the loans reported for HMDA was conducted prior to this examination to confirm the reliability of the HMDA Loan Application Register (LAR) data. As part of this examination, we also performed a CD test, reviewing CD loans, services, and qualified investments occurring since the last CRA examination in May 2009 through May 2012. The CD test evaluates the bank's responsiveness to CD needs in its AAs.

DESCRIPTION OF INSTITUTION

CNB is an intrastate bank headquartered in Waco, Texas. As of March 31, 2012, CNB had average total assets of \$589 million and Tier 1 capital of \$54 million.

CNB is wholly owned by Centrabanc Corporation, a one-bank holding company. CNB operates at 4 different locations: the main office and one additional branch are located in Waco; and additional branch offices are located in Temple and Georgetown, Texas. All four branches are located within their stated AAs, which are contiguous to and do not arbitrarily exclude LMI tracts. There have been no significant changes to CNB's corporate structure, including merger or acquisition activities, since the last CRA examination in May 2009.

Branch locations are generally accessible to persons from different areas of the communities they serve. Lobby and drive-through hours are set by location to meet customer needs. CNB has automatic teller machines (ATMs) providing 24x7 access at the Waco and Temple branch locations. The bank also offers a debit card that provides customers additional access to their accounts at point-of-sale or ATM locations.

The bank offers a full range of deposit and loan products and services. Loan products include a standard selection of commercial, residential, and consumer loans. The Temple branch includes a mortgage lending division that offers traditional mortgage products as well as FHA and VA loans. Deposit products and services include a free standard checking account and an ATM access-only account that allows customers to direct deposit payroll checks and access funds via ATM and bank visits. CNB also offers customers access to their accounts through CentraNet, CNB's online banking system, and through The Informant, CNB's telephone banking system. Internet and phone banking services include transfers between CNB accounts, review of balances or transactions, and bill-paying capability for the Internet banking product. CNB also offers online ACH origination, wire transfers and external account transfers to authorized customers.

In addition, the bank has recently launched a mobile banking product which allows customers to view their accounts and transfer funds among their CNB accounts from a mobile device. CNB offers remote deposit capture, positive pay, and merchant processing services to commercial customers.

Commercial and real estate lending are CNB's primary business focus. Consumer and agricultural loans comprise a very small portion of the loan portfolio. As of March 31, 2012, CNB reported total loans of \$422 million, representing approximately 70% of total assets. The loan portfolio composition is summarized on the table below:

LOAN PORTFOLIO SUMMARY BY PRODUCT		
Loan Category	Dollar Volume \$ (000)	% of Outstanding Dollars
Real Estate (RE) Construction and Land Development	22,574	5%
Farmland / Agricultural Production	6,421	1.5%
RE Residential (1-4 Family)	143,675	34%
RE Multifamily	20,867	4.9%
Commercial RE	126,735	30%
Commercial & Industrial	81,756	19%
Consumer Loans	11,186	2.6%
Other Loans	9,226	2.2%
Total Loan Portfolio	422,440	100%

Source: Institution Consolidated Reports of Condition as of March 31, 2012

CNB faces very strong competition from banks, savings institutions, and other financial institutions in its AAs. Based on its financial condition, the local economy, product offerings, competition, and prior performance, CNB has the ability to meet the credit needs in its community. There are no legal or financial impediments to CNB's ability to meet the credit and community development needs of its AAs. The bank was rated "Satisfactory" at its last CRA examination dated May 18, 2009.

CNB has three AAs, which includes the Waco metropolitan statistical area (MSA) and portions of Bell and Williamson Counties. The bank's branches are located in these areas, which are further described below. All AAs are reasonable and do not arbitrarily exclude any LMI areas. The following provides information regarding the AAs. Additional information can be found in the bank's Public File.

DESCRIPTION OF ASSESSMENT AREA

Waco Metropolitan Statistical Area (McLennan County)

McLennan County is located in Central Texas. The city of Waco is the largest city in the county and the county seat. Performance in the McLennan County AA is given more consideration because a significant majority of the number and volume of the bank's loans and deposits are generated from within this AA. Information provided by CNB indicates that approximately 70% of the bank's loan volume and 75% of the deposit base is from the Waco area.

This area is made up of contiguous census tracts (CTs), which surround and include CNB's two branch locations in Waco. CNB's head office is more centrally located and is surrounded by upper-, middle-, and moderate-income CTs. The other Waco location is in the southwestern part of the community in an upper-income CT on Highway 84, which is in a growth area of the community. This AA meets the requirements of the regulation and does not arbitrarily exclude any LMI geographies. Demographic information is reflected on the following chart.

DEMOGRAPHIC INFORMATION FOR WACO MSA (MCLENNAN COUNTY)					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	51	9.80	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	84,795	4.80	18.68	36.55	39.97
Businesses by Geography	21,430	3.94	24.81	28.32	42.93
Farms by Geography	1,076	1.39	8.74	47.30	42.57
Family Distribution by Income Level	53,122	20.68	17.54	21.36	40.42
Household Distribution by Income Level	78,926	25.33	15.07	17.82	41.78
US Census Median Family Income (MFI)		43,454	Median Housing Value		62,261
HUD – Adjusted MFI: 2011		54,000	Households Below Poverty Level		17.73%
HUD – Adjusted MFI: 2010		51,900	Unemployment Rate		4.76%
HUD – Adjusted MFI: 2009		51,700	Owner Occupied Units		55.97%

Source: 2000 U.S. Census Data and 2011 updated HUD income data

The recently published 2010 Census data reflects population growth in the Waco MSA of approximately 9% over the past ten years. The 2000 Census reported 85 thousand housing units in the AA of which approximately 56% were owner-occupied, 37% renter-occupied, and the remaining 7% are vacant. Updated Census data reflects 10% growth in housing units and a slightly higher vacancy rate of 9%. The median housing value is \$62 thousand. Of the 51 CTs, 5 are low-income, 14 are moderate-, 16 are middle-, and 16 are upper-income. Almost one entire moderate-income CT is made up of a VA hospital and, therefore, lending opportunities in this CT are limited.

The Waco MSA exceeds the national poverty statistics with almost 18% of households living below the poverty level. The unemployment rate in this area has historically been lower than national and state averages. However, data from the U.S. Bureau of Labor and Statistics (BLS) and Texas Work Force Commission (TWFC) reflects higher unemployment rates since 2008. Unemployment rates were as high as 7.2% in 2011 and approximated 6.6% in May 2012. Information provided by the bank from local sources also indicated that foreclosure activity in this AA had increased since 2009; averaging over 100 notices per month.

Higher education, health care, industrial, and manufacturing continue to be the area's major employers. Some of the largest employers include Providence Health Centers, Hillcrest and Scott & White Health Systems, Baylor University, Texas State Technical College, and McLennan Community College. An aircraft modification company, poultry processing plants, Waco ISD, HEB, Wal-Mart, and M&M Mars also continue to be major employers in the area. Information from Dunn and Bradstreet indicates that of the 22 thousand businesses in this area; 93% are single location with sole operations in McLennan County. The majority of businesses (70%) have revenues under \$1 million.

CNB operates in an extremely competitive banking environment in Waco. FDIC data as of June 30, 2011, indicates that there were at least 25 banks and savings institutions in the Waco MSA, with 58 offices. CNB's market share of deposits is approximately 10%.

In conjunction with the assessment of CNB's performance, we performed several community contacts with organizations targeting small businesses in the Waco MSA and housing needs in LMI communities. Based upon these contacts, it was determined that there is still a need for affordable housing and development in LMI areas. Housing related organizations indicated that the lack of new construction the past few years, job losses, and increased foreclosures have negatively impacted home ownership opportunities for LMI groups. However, contacts recognized increased home improvement lending activity, which has helped to improve living conditions in rental properties. Contacts also mentioned good involvement from all area financial institutions in regards to donations and participation in counseling and financial literacy programs. The economic outlook from business development contacts was somewhat more positive with recent increases in building permits and home sales. CNB was specifically recognized for its financial mentoring programs and small business lending efforts. Overall, CNB is well perceived by the Waco community.

Bell County Assessment Area (Killeen/Temple/Fort Hood Metropolitan Statistical Area)

The Killeen/Temple/Fort Hood MSA is comprised of Bell, Coryell, and Lampasas Counties. CNB operates one full-service branch within Bell County in the city of Temple, TX, and has selected most of Bell County as its AA. Bell County is centrally located along the IH-35 corridor, just south of McLennan County and the Waco MSA.

The CTs in the western portion of the county near Killeen/Fort Hood have been excluded, which are inconvenient to the Temple branch. This AA meets the requirements of the regulation and does not arbitrarily exclude any LMI areas. Demographic information is shown in the table below.

DEMOGRAPHIC INFORMATION FOR KILLEEN/TEMPLE/FORT HOOD ASSESSMENT AREA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	27	0	22.22	44.44	33.33
Population by Geography	113,979	0	14.03	46.26	39.71
Owner Occupied Housing Units by Geography	46,821	0	8.79	43.67	47.54
Businesses by Geography	13,563	0	12.50	39.37	48.13
Farms by Geography	796	0	5.40	40.95	53.64
Family Distribution by Income Level	30,195	16.92	16.27	22.15	44.66
Household Distribution by Income Level	42,845	22.32	15.91	20.25	41.52
Census Median Family Income (MFI)		\$40,972	Median Housing Value		\$72,899
HUD – Adjusted MFI: 2011		\$55,900	Households Below Poverty Level		12.74%
HUD – Adjusted MFI: 2010		\$54,900	Unemployment Rate		3.43
HUD – Adjusted MFI: 2009		\$54,000	Owner Occupied Units		58.62%

Source: 2000 US Census Data and 2011 HUD updated income data

Based on 2000 Census data, the AA has a population of approximately 114 thousand. Recently released 2010 Census data revealed a population growth of approximately 16% in the AA. None of the 27 CTs were classified as low-income, while 6 were moderate-, 12 middle-, and 9 upper-income. Major employers located in and/or adjacent to the AA include hospitals, school districts, city and county governments, Temple College, and the Fort Hood Army Base. BLS and TWFC reports reflect higher unemployment rates since 2008; from a high of 8.2% in 2011 to approximately 7.6% in May 2012. Bank-provided information indicates that foreclosures in Bell County have averaged over 2200 for the past three years. The average number in Temple was over 700.

To determine community needs and opportunities for local financial institutions, we contacted two community organizations focused on small business financing, housing and economic development in Temple and the Killeen/Temple/Fort Hood MSA. Based upon feedback from these contacts, we determined that affordable housing continues to be a community need. The downturn in the local and national economy has impacted home ownership and borrowing capacity of LMI groups. Comments from community contacts regarding local community bank participation in government-sponsored small business loan programs were positive. The community contact identified CNB as one of the active local bank participants in small business financing.

Competition in this market is also strong. The FDIC's June 30, 2011 branch and deposit market share reports indicate that there are at least 19 banks and 68 offices in Bell County. CNB's deposit base in this AA represents approximately 20% of the bank's total deposits, but only 3% of the entire local market share.

Williamson County Assessment Area (Austin/Round Rock Metropolitan Statistical Area)

The entire Austin-Round Rock MSA is comprised of Travis, Williamson, Hays, Caldwell, and Bastrop counties. CNB has selected portions of Williamson County, including the city of Georgetown and the immediate vicinity, as one of its AAs. Georgetown is the county seat and is also located on the IH-35 corridor just south of Temple and Belton. CNB operates one full-service branch in Georgetown. Performance in this AA had the least impact to the overall rating due to the bank's limited deposit base and loans generated from this branch. CNB's deposits from this AA represent only 4% of total deposits and less than 1% of the entire market share in Williamson County. Total loans generated from this office represent less than 5% of CNB's total loans.

CNB also faces very strong competition in this market from large institutions and community banks. The FDIC's June 30, 2011 branch report revealed at least 35 institutions and 119 branch offices in Williamson County. The bank's AA meets the requirements of the regulation and does not arbitrarily exclude any LMI areas. Demographic information is shown on the table below.

DEMOGRAPHIC INFORMATION FOR AUSTIN/ROUND ROCK MSA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	11	0	9.09	54.55	36.36
Population by Geography	62,627	0	6.2	54.15	39.52
Owner Occupied Housing Units by Geography	23,092	0	2.55	49.84	47.61
Businesses by Geography	13,485	0	8.74	45.90	45.35
Farms by Geography	512	0	2.73	64.65	32.62
Family Distribution by Income Level	17,647	13.72	17.55	23.85	44.88
Household Distribution by Income Level	21,986	15.82	13.77	20.07	50.34
Census Median Family Income (MFI)					
		\$59,438	Median Housing Value		\$132,946
HUD – Adjusted MFI: 2011		\$74,900	Households Below Poverty Level		5.33%
HUD – Adjusted MFI: 2010		\$73,800	Unemployment Rate		1.74%
HUD – Adjusted MFI: 2009		\$73,300	Owner Occupied Units		75.26%

Source: 2000 US Census Data and 2011 HUD updated income data

Based on 2000 Census data, the AA has a population of approximately 63 thousand. Updated 2010 Census data reflects over 60% growth within the city of Georgetown. There are no CTs in the AA classified as low-income, and only 1 moderate-income CT. Major employers in and/or adjacent to the AA include the school district, county government, a hospital, Southwestern University, and the City of Georgetown. Information from the BLS and TWFC indicates that unemployment rates in this MSA have remained below state and national averages and this AA appears to have been less impacted by the economic downturn than CNB's other two market areas. Unemployment in the MSA reached a high of 7.1% in 2010 and in May 2012 unemployment rates approximated 5.8%. The median home value and median incomes in this AA are higher than other AAs. Georgetown also has a high percentage of retirees in the nearby retirement community of Sun City. 2010 Census data shows the percentage of population over 55 years of age in Georgetown is 38% and 25% is over 65. Homeowner occupancy in this AA is also high at 75%.

In conducting the assessment of CNB's CRA performance in this AA, we contacted a community organization that administers a wide range of social service and economic opportunity programs benefiting LMI persons, including affordable housing. The contact expressed concern about the impact of local and national economic conditions, declining home sales, the low percentage of owner-occupied properties among LMI individuals, and the impact of increased unemployment. The contact also stated that there is a need for housing renovations and special programs to promote home ownership for LMI groups.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending Test

The bank's performance under the Lending Test is rated "Satisfactory."

The review focused on residential real estate and commercial lending. Poor performance was noted for penetration to LMI families for residential real estate lending. However, CNB exceeds the standard for its LTD ratio and lending in the AA. Overall, the bank's lending test merits a "Satisfactory" rating under CRA standards.

Loan-to-Deposit Ratio

CNB's net LTD ratio is excellent given the bank's size, financial condition, and AA credit needs. The bank's net LTD ratio averaged 82.71% over the 13 quarters since the last CRA examination and compares favorably with other community banks of similar size, location, and product offerings. CNB ranks second among a total of seven similarly situated banks serving its AAs. The other 7 banks had an average net LTD ratio of 64.82% over the 13 quarters since the last CRA examination. The LTD ratio is shown on the table below.

LOAN-TO-DEPOSIT RATIO COMPARISON		
Institution	Assets as of 3/31/2012 (\$000s)	Average LTD Ratio (%)
Central National Bank	598,809	82.71
American Bank, N.A.	376,046	73.51
Community Bank and Trust	402,453	82.50
Extraco Banks, National Association	1,216,354	78.66
First National Bank of Central Texas	623,069	89.05
First Texas Bank	312,688	40.48
Texas First State Bank	330,744	40.48
Union State Bank	422,136	49.05

Lending in the Assessment Area

A substantial majority of CNB's loans are made within its AAs, therefore, exceeding the standard for satisfactory performance under this criterion. We assessed performance of this area by analyzing the number and dollar amount of all 1-4 family residential loans reported on the HMDA/LAR between 2010 and 2011. Additionally, we reviewed a random sample of 42 commercial loans extended during the same period.

As illustrated in the table below, our analysis of both home and commercial lending activity showed that the bank originated 87% by number and 81% by dollar amount within its defined AA. Performance under this criterion was based on the bank's overall AA, as described above under *Description of Assessment Area(s)*.

LENDING IN ASSESSMENT AREA								
LOAN TYPE	In Assessment Area				Out of Assessment Area			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Home Purchase	234	85.09	\$35,895	79.48	41	14.91	\$9,267	20.52
Home Improvement	17	94.44	\$709	95.94	1	5.56	\$30	4.06
Home Refinance	89	86.41	\$14,410	81.84	14	13.59	\$3,197	18.16
Commercial	35	83.33	\$13,042,075	67.60	7	16.67	\$6,249,900	32.40
Total Reviewed	375	87.32	\$13,093,089	81.22	63	12.68	\$6,262,394	18.78

Source: HMDA data and Commercial Loan Sample

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Residential real estate lending to LMI borrowers in the AAs is substantially below area demographics and needs improvement. The bank's level of lending to small businesses meets the standards for satisfactory performance. The business loan distribution revealed a reasonable distribution of loans to small businesses in all AAs, particularly in the Waco MSA where the distribution of loans to small businesses was excellent. For evaluation under this criterion, small businesses are defined as businesses with less than \$1 million in annual revenue.

We gave more weight in our analysis to CNB's performance in the Waco MSA because of its substantial presence in this community. We also placed more weight on business loan distribution as this is the bank's primary focus. A substantial majority of the bank's loans (68%) and deposits (76%) are generated from the two Waco branches. We assessed CNB's performance under this criterion by utilizing 2010 and 2011 HMDA information for residential mortgage loans, samples of bank loans to businesses, 2000 Census data, and updated information from Dunn and Bradstreet.

The following tables summarize lending distribution among the various levels of income or revenue for individuals or businesses respectively, for each of the bank's AAs.

Performance in the Waco Metropolitan Statistical Area (McLennan County Assessment Area)

Residential Real Estate Loans

BORROWER INCOME DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN WACO MSA (MCLENNAN COUNTY)								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Home Purchase	20.68	3.03	17.54	9.85	21.36	15.91	40.42	55.30
Home Improvement	20.68	0	17.54	0	21.36	0	40.42	83.33
Refinance	20.68	2.78	17.54	0	21.36	8.33	40.42	72.22

Source: 2000 US Census Data; 2010 -2011 HMDA data

As shown in the table above, approximately 21% of the AA families are low-income and nearly 18% are moderate-income. The loan sample revealed that the bank's residential real estate lending for all types of home loans, including purchases, refinancing, and home improvement loans, to LMI borrowers is substantially less than comparative AA demographics.

The bank originated less than 3% of its home purchase loans and 3% of its refinanced loans to low- income borrowers. Home purchase loans to moderate-income borrowers represented 10% of the bank's loans. There were no home improvement loans in this AA.

The poor penetration among LMI individuals can be attributed to several factors including economic conditions and increased competition from other institutions that are more accessible to low-moderate income areas and that offer special financing programs targeting LMI borrowers. Also, according to Census demographic information approximately 18% of AA families have incomes that are below poverty level. Community contacts in this AA indicated that LMI individuals have been most directly affected by job losses and the weakened economy and many of the LMI borrowers struggle with meeting current underwriting requirements.

The location of the Waco area branches may also influence performance in this area to some extent. One of the Waco branches is located in an upper-income CT in the southwestern part of the city and it is not particularly convenient to LMI geographies. The other Waco branch is more centrally located, but it is only convenient to two of the five low-income areas within the AA. Furthermore, the bank's home loan product offerings within this AA are limited and do not include either FHA or Conventional 30-year fixed loans, therefore reducing its degree of competitiveness within this market. These factors have impacted the CNB's distribution to LMI borrowers. As mentioned in the CD test, made several additional loans have been made to entities providing home loans and home improvement loans to LMI borrowers.

Business Loans

Our analysis of business loans included a sample of loans originated between 2010 and 2011 to determine the level of distribution among businesses of different sizes.

BORROWER DISTRIBUTION OF LOANS TO BUSINESSES IN WACO METROPOLITAN STATISTICAL AREA (MCLENNAN COUNTY)				
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 #	75.00%	25.00%	0.00%	100%
% of Bank Loans in AA by \$	20.57%	79.43%	0.00%	100%

Source: Commercial Loan Sample; Dunn and Bradstreet

As illustrated in the table above, approximately 68% of AA businesses reported annual gross revenues of \$1 million or less. Comparatively, 75% of the number and 20% of the dollar amount of the commercial loans sampled in the Waco MSA were made to small businesses with annual revenues of \$1 million or less. There were a few very large loans in our sample to large businesses that resulted in a higher percentage of dollars to large businesses. The bank's distribution of loans to small businesses is excellent particularly when considering the number and percentage of CNB's total commercial loan portfolio in this AA (approximately 63%).

Performance in the Bell County Assessment Area (Killeen/Temple/Fort Hood MSA)

This MSA was given less consideration due to CNB's lower level of loan activity and market share in the Temple market. Approximately 21% of CNB's total deposits and 27% of its loans are generated from the Temple branch location.

Residential Real Estate Loans

BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN BELL COUNTY ASSESSMENT AREA (KILLEEN/TEMPLE/FORT HOOD METROPOLITAN STATISTICAL AREA)								
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
Home Purchase	16.92	2.15	16.27	4.30	22.15	35.48	44.66	48.39
Home Improvement	16.92	0	16.27	20.00	22.15	0	44.66	60
Refinance	16.92	2.04	16.27	10.20	22.15	10.2	44.66	71.43

Source: 2000 US Census Data; HMDA data

As shown in the table above, 17% of AA families are within low-income levels and 17% are within moderate-income levels. Also according to Census demographic information, approximately 13% of AA families are considered below poverty level; only slightly less than in the Waco MSA. While CNB's level of lending to low-income borrowers is below the comparative demographic data; the bank's lending performance to moderate-income borrowers was better with 4% home purchase, 10% refinance, and 20% home improvement.

Overall, CNB's loan distribution to borrowers of different incomes in the Bell County AA was considered reasonable given the performance context and the higher percentage of home improvement loans to moderate income borrowers.

Business Loans

The analysis included a sample of loans originated between 2010 and 2011 to determine level of distribution among businesses of different sizes.

BORROWER DISTRIBUTION OF LOANS TO BUSINESSES IN BELL COUNTY ASSESSMENT AREA (KILLEEN/TEMPLE/FORT HOOD MSA)				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	68.27%	2.09%	29.63%	100%
% of Bank Loans in AA by #	60.00%	40.00%	0.00%	100%
% of Bank Loans in AA by \$	44.72%	55.28%	0.00%	100%

Source: Commercial Loan Sample; Dunn and Bradstreet data

As illustrated in the table above, approximately 68% of AA businesses reported annual gross revenues of \$1 million or less. Comparatively, 60% of the number and 45% of the dollar volume of commercial loans sampled in the Bell County AA were extended to businesses with annual revenues of \$1 million or less. This level of performance is considered satisfactory given the local demographics and performance context.

Performance in the Williamson County Assessment Area (Austin/Round Rock MSA)

This MSA was given the least consideration due to CNB's insignificant level of activity in the Williamson County market. Only 4% of CNB's total deposits and 5% of its loans are generated from the Georgetown branch.

Residential Real Estate Loans

BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN WILLIAMSON COUNTY ASSESSMENT AREA (AUSTIN/ROUND ROCK MSA)								
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
Home Purchase	13.72	11.11	17.55	0	23.85	0	44.88	88.89
Home Improvement	13.72	0	17.55	0	23.85	0	44.88	0
Refinance	13.72	0	17.55	0	23.85	0	44.88	100

Source: 2000 US Census Data; HMDA data

As shown in the table above, 13% of the AA families are low-income and 18% are moderate-income. Updated Census information revealed only 5% of the population below poverty level - significantly less than CNB's other two AAs in McLennan and Bell Counties. The bank's loan penetration to LMI borrowers is below comparative demographic data; however, after consideration of the performance context, the overall performance is considered reasonable.

As shown in most of the income categories above, CNB has very low residential lending activity across most income levels and loan types in this AA. While the percentage of home loans in the upper-income category discloses a high concentration at 89%, this is somewhat misleading considering the volume of loans it represents. This percentage is based only on 8 home purchase loans from a total of 9, including all other

income levels. Additionally, housing prices within the AA are significantly higher on average when compared to CNB's other AAs, therefore making it more challenging for LMI borrowers to qualify. Census demographics show a weighted average median housing value of \$133 thousand. The high percentage of home ownership in this area may also contribute to a lower demand for new purchase loans. Because CNB is commercial-focused and has very limited presence in Georgetown, especially in residential real estate, our evaluation of income distribution within this AA did not materially affect the bank's overall performance under this criterion.

Business Loans

Due to limited activity, the commercial sample in this location consisted of almost all commercial loans originated between 2010 and 2011.

BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN WILLIAMSON COUNTY ASSESSMENT AREA (AUSTIN/ROUND ROCK MSA)				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	69.70%	1.67%	28.63%	100%
% of Bank Loans in AA by #	45.00%	55.00%	0.00%	100%
% of Bank Loans in AA by \$	33.43%	66.57%	0.00%	100%

Source: Commercial Loan Sample; Dunn and Bradstreet data

As illustrated in the table above, approximately 70% of AA businesses reported annual gross revenues of \$1 million or less. Comparatively, CNB extended 45% of the number and 33% of the dollar amount of the commercial loans sampled in the Williamson County AA to small businesses with annual revenues of \$1 million or less.

While CNB's distribution of commercial loans to small businesses does not compare favorably to data reported by Dunn and Bradstreet, the bank's loan distribution among the two business size categories is more or less evenly distributed at 45% to small businesses and 55% to businesses over \$1 million. When considering this fairly even distribution, the size of this branch location, and the strong competition from Austin area financial institutions, CNB's lending performance to businesses of different sizes is considered reasonable.

Overall, CNB's level of lending to borrowers of different incomes within the Williamson County AA demonstrates reasonable penetration.

Geographic Distribution of Loans

Overall, CNB has demonstrated a satisfactory distribution of residential loans among its AAs. Loan distribution among LMI geographies is not always consistent with comparative area demographics, except in the Waco MSA where the distribution of home purchase loans is excellent. The distribution of home improvement loans within moderate-income areas of the Temple AA is also excellent. We gave more weight to performance within the Waco MSA considering the concentration of loans and deposits from this AA and the identified needs for home loans. The distribution of home improvement loans in Temple was also given more weight as home improvement loans are also an identified need. The opportunities and volume of residential lending in Williamson County was very limited and therefore performance in this area was given little weight.

The geographic distribution of sampled business loans in the Waco and Temple MSAs is below comparative demographic data; however, performance in these areas is understandable given the performance context and the limited opportunities in the LMI areas. The distribution of business loan distribution in various CTs of Williamson County was excellent.

Performance in the Waco Metropolitan Statistical Area (McLennan County Assessment Area)

CNB has demonstrated excellent distribution of home purchase loans in all geographic areas of the McLennan County AA. CNB’s distribution of business loans needs improvement.

Residential Real Estate Loans

As shown in the table below, CNB’s geographic distribution of home purchase loans in this AA reflects an excellent distribution throughout CTs of different income levels. Demographic data shows that 4.8% of owner-occupied housing within the AA is in low-income CTs. The number of CNB home purchase loans to individuals in low-income tracts is approximately 8%, which exceeds the demographic comparative. CNB’s distribution of home purchase loans to families and individuals in moderate-income tracts also exceeds comparable demographic data at 21%. The bank had no HMDA reportable home improvement loans in the LMI areas. However, as reflected in the community development criterion, the bank has extended loans to entities supporting home improvement in the LMI areas. The bank’s level of refinancing in LMI areas was below comparative demographic data; therefore, we did not place as much weight on performance for this loan type as the identified need was primarily home purchase loans.

GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN WACO MSA (MCLENNAN COUNTY)								
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	7.58	18.68	21.21	36.55	26.52	39.97	44.7
Home Improvement	4.80	0	18.68	0	36.55	66.67	39.97	33.33
Refinance	4.80	2.78	18.68	11.11	36.55	38.89	39.97	47.22

Source: US Census Data; HMDA data

Business Loans

The geographic distribution of sampled business loans in the Waco MSA is below comparative demographic data. Following is a table that details the bank’s performance compared to the percentage of businesses in each CT income level.

GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES IN WACO METROPOLITAN STATISTICAL AREA (MCLENNAN COUNTY)								
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%	0.00%	24.81%	15.00%	28.32%	25.00%	42.93%	60.00%

Source: Commercial Loan Sample; Dunn and Bradstreet data

None of the sampled business loans were in low-income CTs; however, as mentioned previously, the Waco MSA has only five low-income CTs and only 4% of businesses are located in these areas. None of the low-income CTs are particularly convenient to CNB branch locations and one of the low-income tracts is dissected by IH-35. Other institutions in the Waco market are physically more convenient to businesses located along the IH-35 corridor and the low-income CTs. In the moderate-income areas, however, the bank extended loans at 15% of the loan sample, which is below the demographic data showing 25% of the area businesses are located in moderate-income CTs. Although the bank has two branches in this AA, it is situated in a highly competitive market and this level of performance is understandable given the performance context. In the previous examination, the bank's performance in this category was excellent.

Performance in the Bell County (Killeen/Temple/Fort Hood Metropolitan Statistical Area)

This MSA was given less consideration due to CNB's lower level of loan activity and the smaller market share in Bell County. Approximately 21% of CNB's total deposits and 27% of its loans are generated by the Temple branch location. Overall performance in this AA was deemed reasonable when considering the performance context and the excellent distribution of home improvement loans to moderate-income areas. Improvement is needed in business loan distribution. Refer to the results of our analysis below.

Residential Real Estate Loans

GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN BELL COUNTY ASSESSMENT AREA (KILLEEN/TEMPLE/FORT HOOD MSA)								
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
Home Purchase	0	0	8.79	2.15	43.67	23.66	47.54	74.19
Home Improvement	0	0	8.79	20.00	43.67	0	47.54	80.00
Refinance	0	0	8.79	0	43.67	20.41	47.54	79.59

Source: US Census Data; HMDA data

As show in the table above, CNB has demonstrated an excellent distribution of home improvement loans in moderate-income CTs. There are no low-income CTs in this particular AA. The percentage of owner-occupied housing in moderate-income CTs is only 8.8%, which compares favorably to the bank's lending percentages for home improvement loans at 20%. The poor dispersion among LMI individuals for home purchases and refinances can be attributed to several performance context factors including slower economic conditions and increased competition.

Also, due to the growth of medical facilities and services in this community, there is a greater demand in this AA for home purchase loans in the middle- and upper-income CTs, so more emphasis was placed on this loan product when assessing the bank’s performance.

Business Loans

The table below details CNB’s performance compared to the percentage of businesses in each CT income level.

GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES IN BELL COUNTY ASSESSMENT AREA (KILLEEN/TEMPLE/FORT HOOD 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	0.00	0.00%	12.50	0.00%	39.37	45.00%	48.13	55.00%

Source: Commercial Loan Sample; Dunn and Bradstreet data

Moderate-income CTs consist of approximately 22% of total CTs within the AA, and only 12.5% of the businesses are located within these CTs. CNB had no business loans in our sample to moderate-income geographies. This level of performance needs improvement; however, weak loan demand, slower economic conditions, strong competition, and limited opportunities within the moderate-income areas are all contributing factors.

Performance in the Williamson County Assessment Area (Austin/Round Rock MSA)

This MSA was given the least consideration due to CNB’s insignificant level of activity in the Williamson County market. Refer to the results of our analysis below.

Residential Real Estate Loans

There are no low-income CTs in this AA and there is only one moderate-income CT. CNB’s geographic distribution of home loans in this AA reflects all loans were made in the upper CT. While the percentage of loans in upper-income CT appears high, it only actually represents a total of nine loans originated/purchased within the AA. As previously mentioned, the bank only has a minor presence in the Georgetown market, which is reflected in its low lending volumes (less than 4% of the bank’s total loan volume). Following is a table that details the bank’s performance as compared to the demographics in each CT.

GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN WILLIAMSON COUNTY ASSESSMENT AREA (AUSTIN/ROUND ROCK MSA)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner- Occupied	% of # of Loans	% of AA Owner- Occupied	% of # of Loans	% of AA Owner- Occupied	% of # of Loans	% of AA Owner- Occupied	% of # of Loans
Home Purchase	0	0	2.95	0	42.18	0	54.88	100
Home Improvement	0	0	2.95	0	42.18	0	54.88	0
Refinance	0	0	2.95	0	42.18	0	54.88	100

Source: US Census Data; HMDA data

Median housing costs within the city limits of Georgetown, where the branch is located, are higher than the surrounding county at approximately \$178,000, which makes it more difficult for a moderate-income individual to qualify for a mortgage loan. CNB's primary focus is on commercial lending - not residential real estate lending - particularly in the Georgetown market. When considering this information and the performance context, the bank's lending distribution is not unreasonable and meets the standard for satisfactory performance.

Business Loans

GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES IN WILLIAMSON COUNTY ASSESSMENT AREA (AUSTIN/ROUND ROCK 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	0.00	0.00%	9.99	15.00%	38.16	25.00%	51.84	60.00%

Source: Commercial Loan Sample; Dunn and Bradstreet data

As shown in the table above, CNB's geographic distribution of business loans in the Williamson County AA demonstrates reasonable dispersion throughout various geographies. Demographic data indicates that there are no low-income CTs within this AA and only one moderate-income CT. Based on our sample, 15% of the business loans in this AA were made to businesses in the moderate-income CT, exceeding comparable demographic information, which showed 10% of AA businesses as being located within the moderate income CT. Our sample included almost all business activity originated from the Georgetown branch due to low lending activity in this area.

Responses to Complaints

CNB has not received any CRA complaints during this evaluation period.

Community Development Test

CNB's overall performance under the Community Development (CD) Test is rated "Outstanding." Our primary focus was on the bank's performance in the Waco MSA, which is excellent. Performance in Temple/Bell County is satisfactory in light of the bank's capacity, business strategy, the needs of the community, and the number and types of opportunities for CD activities. We gave more weight to CNB's CD performance in the Waco MSA, as 75% of the bank's deposits are in this AA. The bank's presence in Georgetown is very limited and it has not yet focused on CD activities for this market.

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.

Performance in the McLennan County Assessment Area

CNB originated or renewed 34 CD loans in this AA since the last CRA examination dated May 18, 2009, totaling \$2.6 million. These loans included some of the following:

- **\$935,000** in originations and/or renewals to three construction/home improvement companies that construct and remodel affordable housing for LMI individuals. These organizations work with the City of Waco and the Waco Housing authority to improve living conditions for LMI individuals.
- **\$830,000** originated or renewed to two related construction/home improvement companies that finance affordable loans to LMI individuals for home improvement purposes.
- **\$641,000** originations and renewals to an individual and two business entities purchasing, improving, and reselling homes to LMI individuals.
- **\$128,000** renewed to an entity providing needed daycare services targeted to LMI individuals.
- **\$22,000** renewed and **\$10,000** originated to a non-profit entity that provides various needed community services targeted to LMI individuals.

Performance in the Bell County Assessment Area

CNB originated or renewed two CD loans in this AA since the last CRA examination totaling **\$553,000**. Both loans were made to a company that constructs affordable housing for LMI individuals that revitalizes LMI areas. The company works with the City of Temple and HUD to help individuals purchase homes.

Community Development Investments

Investments, deposits, membership shares, or grants that have CD as their primary purpose are defined as “qualifying investments” in the CRA regulation. The bank had a prior period equity investment of nearly \$1 million and qualified donations totaling **\$140,000** in its primary AAs. Investments support community services that target LMI families and individuals. Specific examples of investments for qualifying CD organizations are described below.

Performance in the McLennan County Assessment Area

CNB made qualified investments totaling **\$1,052,218** in this AA. Of this total, \$942,671 was invested in the Access Capital Community Investment Fund, which is an equity investment that supports LMI housing in the AA. This investment fund has provided home loans in McLennan County totaling approximately \$637,000. Also, since the last examination, CNB has granted funds totaling \$109,000 to various organizations that provide community services to LMI individuals in this AA. For example, \$13,111 was donated to a non-profit organization to help fund local programs that provide needed services to LMI individuals and LMI areas; and \$15,000 was donated to the Family Health Center, which provides medical services to the underserved populations in McLennan County. CNB also donated over \$22,000 to local school programs and educational organizations in support of educational programs for LMI individuals. Additionally, CNB donated \$31,000 in support of the LEAD Program for mentoring at risk children from LMI schools and for annual scholarships to program graduates.

Performance in the Bell County Assessment Area

CNB's investment in the Access Capital Community Investment Fund has also generated loans in the Killeen/Fort Hood/Temple MSA totaling approximately \$492,000. Since the last examination, CNB has also made qualified investments in Bell County totaling \$16,381 to various organizations that provide community services to LMI individuals in this AA. For example, \$2,200 was donated to the Temple Community Free Clinic, which provides free healthcare to low-income individuals. Donations of \$13,111 were made to a local non-profit organization to help fund local programs that provide needed services to LMI individuals and LMI areas.

Performance in Williamson County Assessment Area

CNB has not focused on community development in the Georgetown location; however, it has made a few qualified investments in the Georgetown market totaling \$13,179. These funds have been donated to local non-profit organizations which help provide affordable housing to LMI individuals and to fund local programs that provide needed services to LMI individuals.

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. Opportunities for CD services are considered moderate and are primarily in the areas of affordable housing and community services. The level of CD services is satisfactory at CNB. Bank officers continue to provide technical assistance to organizations that provide community services for LMI persons, and/or serve the financial needs of small businesses in McLennan and Bell County AAs.

Performance in the Waco Metropolitan Statistical Area

Although CNB does not have branches in any LMI CTs, the central Waco location is convenient to a few moderate-income areas. The bank has ATMs at each branch location and offers a free basic checking account and other lower-cost account options. In addition, 24-hour telephone and Internet access of accounts help make services convenient. These services generally help to increase access to financial services for LMI individuals. With a 17% poverty rate and 38% of the families considered LMI, the provision of these services is considered favorably under the CRA review.

Many bank officers provide CD services to qualifying programs in this AA. For example, two officers serve on the boards of educational associations and foundations that serve LMI areas and LMI schools. Another officer manages the finances of a foundation whose focus is to provide medical services to LMI individuals, and another officer serves on the finance committee of the YMCA which provides scholarships targeted to children from LMI families.

Performance in the Bell County Assessment Area

Although CNB does not have branches in any LMI CTs of Bell County, it does maintain a centrally located full-service branch office and ATM in a CT that borders a large moderate-income area. CNB offers a free basic checking account, and other lower-cost account options. In addition, 24-hour telephone and Internet access of accounts help make services accessible. With nearly 13% of families living below the poverty line and 22% considered LMI, provision of these services is considered favorably.

Performance in the Williamson County Assessment Area

CNB's branch location in Williamson County is a full-service branch adjacent to middle-, upper- and one moderate-income CT. CNB offers a free basic checking account and other lower-cost account options. In addition, 24-hour telephone and Internet access of accounts help make services more easily accessible. With the higher median family incomes in this community and lower poverty rates, the provision of these services is acceptable.

Responsiveness to Community Development Needs**Performance in the Waco Metropolitan Statistical Area**

The bank's CD activities, as a whole, demonstrate outstanding responsiveness to the needs and opportunities in this AA. CNB's efforts to address identified needs are evident in the volume of CD loans, investments, and participation in community service organizations within the community.

Performance in the Bell County Assessment Area

The bank's CD activities in Bell County (Temple, Texas) as a whole, also demonstrates adequate responsiveness to the needs and opportunities in this AA. The small business community organization contacted during this examination commented favorably on participation by several local institutions, including CNB.

Performance in the Williamson County Assessment Area

CNB's limited presence in the Williamson County AA (Georgetown, Texas) has affected its CD efforts. For the evaluation period, CNB had no CD loans in this community. Investments and services were very limited. Overall, CNB shows poor responsiveness to CD needs within this particular AA; however, this is mitigated somewhat by the bank's small market share in this very competitive environment. The community organization contacted during this examination indicated that a need remains for affordable housing in the area, which is a potential opportunity for CNB to increase its CD participation in this community. Based upon other community contacts in this AA, there are also opportunities for outreach, financial literacy programs, as well as education and marketing regarding banking services targeted to LMI individuals.

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.