



Office of the  
Comptroller of the Currency  
Washington, DC 20219

# **INTERMEDIATE SMALL BANK**

## **PUBLIC DISCLOSURE**

September 10, 2018

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

First National Bank of Central Texas  
Charter Number 5850

1835 North Valley Mills Drive  
Waco, TX 76710

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Dallas Field Office  
225 E. John Carpenter Freeway, Suite 900  
Irving, TX 75062

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, and should not be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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## **Overall CRA Rating: This institution is rated Satisfactory.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

Summarize the major factors supporting the institution's rating.

- The bank's loan-to-deposit (LTD) ratio is reasonable.
- A majority of loan originations and purchases are inside the bank's assessment areas (AAs).
- The distribution of loans to businesses of different sizes exhibits reasonable penetration.
- The geographic distribution of business loans reflects an excellent distribution across low-and moderate-income (LMI) census tracts.
- The overall level and responsiveness of community development (CD) lending, investments, and services is adequate.

## **Definitions and Common Abbreviations**

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

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

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

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

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

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

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

vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Description of Institution

First National Bank of Central Texas (FNBCT or bank) is a full-service community bank located in Waco, Texas, serving McLennan County and Hill County. FNBCT is owned directly by FCT Bancshares Inc. (FCTBI). The previous CRA evaluation, dated January 5, 2015, assigned a “Satisfactory” rating to the bank.

There are no legal or financial impediments to FNBCT’s ability to meet the credit needs of its AA. We did not consider the activities of affiliates in this evaluation.

FNBCT offers a full-range of loan and deposit products, as well as online, mobile and telephone banking, for individuals and businesses. As shown in the following table, the bank’s primary lending products include commercial and commercial real estate loans. Lending to small and mid-size businesses continues to be the main focus of the bank’s lending strategy.

As of December 31, 2017, net loans were 81 percent of FNBCT’s total assets of \$829 million. The following table is a summary of FNBCT’s loan portfolio. The bank’s tier 1 capital as of December 31, 2017 was \$76 million.

First National Bank of Central Texas Loan Portfolio Summary		
Loan Category	Dollar Volume (\$000's)	Percentage
Commercial and Commercial Real Estate	399,792	59%
Residential Real Estate	102,139	15%
Farm	68,314	10%
Construction	62,962	9%
Consumer and Other	42,689	6%
Total Loans	675,896	100%

*Source: December 31, 2017 Report of Condition.*

FNBCT’s physical offices are its primary delivery system for retail products and services. In addition to its main office in Waco, the bank has two branch offices located in Waco, one in Mart, and one in Hillsboro. According to the U.S. Census 2015 American Community Survey (effective in 2017), the main office is located in an upper-income CT, one branch is in a moderate tract, two are in middle geographies and one is located in an upper-income CT.

FNBCT did not engage in any merger or acquisition activity during the evaluation period. No branch offices were opened or closed during the review period.

Lobby hours at the main office and branch offices are 9:00 a.m. to 4:00 p.m. Monday through Thursday and 9:00 a.m. to 6:00 p.m. on Friday. The drive-through hours are 7:30 a.m. to 6:00 p.m. at each location and 9:00 a.m. to 12:00 p.m. on Saturday, only at the Hillsboro branch. The main office and branches each have an ATM with 24 hour

access. None of the ATMs are full-service (i.e., accepting check and cash deposits). By utilizing the *SUM Surcharge-Free ATMs* link on FNBCT's website, bank customers can find surcharge-free ATMs all across the country through the NYCE network.

FNBCT's banking programs and hours allow the bank to deliver needed banking and credit services to LMI areas and customers as well as small business owners throughout the bank's AAs. FNBCT offers on-line banking through its website [www.fnbct.com](http://www.fnbct.com). Bank customers can utilize on-line banking and the mobile banking app at no charge. Telephone banking and ATM services are available in English and Spanish. The main office and each branch have employees who speak Spanish. The bank also offers small business loans to qualified customers.

FNBCT has two AAs located in Texas: the Waco MSA and the Hill Non-MSA. Appendix B details a full discussion of the Waco MSA. The bank's major competitors are Central National Bank; Community Bank and Trust; American Bank, National Association and Texas First State Bank. FNBCT is ranked 93<sup>rd</sup> among 529 FDIC-insured depository institutions in the state of Texas, for a 0.09 percent deposit market share.

## **Scope of the Evaluation**

### **Evaluation Period/Products Evaluated**

FNBCT is subject to the interagency Intermediate Small Bank (ISB) CRA evaluation procedures. As such, this Performance Evaluation (PE) assesses the bank's performance under the Lending and Community Development Tests. The evaluation period for this CRA evaluation ranges from January 6, 2015 through December 31, 2017. We identified commercial and commercial real estate loans (business loans) as the bank's primary loan products. The Lending Test concentrated on lending activity from January 1, 2015 to December 31, 2017. Lending activity beginning January 1, 2017 is evaluated using the 2015 U.S. Census American Community Survey (ACS) data. For 2015 and 2016 we utilized the demographics and geographies related to the 2010 U.S. Census.

In addition to the Lending Test, ISBs are evaluated under the Community Development Test. Our consideration of CD activity including loans, investments and services, extended from January 6, 2015 through December 31, 2017.

### **Data Integrity**

To evaluate FNBCT's performance relative to business lending in the Waco MSA, we selected a random sample of 30 business loans that were originated and purchased during the 2015-2016 review period and 30 in the 2017 review period. Due to the lower volume of lending in the Hill Non-MSA, we selected a random sample of ten business loans from that AA for 2015-2016 and ten for 2017. Our testing found the data to be accurate and reliable to use in the CRA evaluation.

## **Selection of Areas for Full-Scope Review**

As previously noted, FNBCT has delineated two AAs both located in Texas: the Waco MSA and the Hill Non-MSA.

We conducted a full-scope review of the Waco MSA. A full-scope review considers complete performance context information, quantitative factors and qualitative factors. The AA received the full-scope review because 91 percent of the bank's deposits, 80 percent of its offices, and 92 percent of the number of originated and purchased business loans are in that AA.

The Hill Non-MSA received a limited-scope review based on its figures of nine percent, 20 percent and eight percent, respectively. Limited-scope reviews consider primarily quantitative factors with performance context data limited to the comparable demographics.

The composition of the two AAs is detailed in Appendix A. Please refer to Appendix B for a discussion of the full-scope AA.

## **Ratings**

Ratings for this CRA evaluation are based primarily on the results of the full-scope area.

## **Discriminatory or Other Illegal Credit Practices Review**

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

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

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

## **Conclusions with Respect to Performance Tests**

### **LENDING TEST**

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

#### **Loan-to-Deposit Ratio**

FNBCT's LTD ratio is reasonable given the bank's size, location, local competition, and the credit needs of the AA. The LTD ratio is calculated on a bank-wide basis. This determination is based on the quarterly average LTD ratio of 86.70 percent from December 31, 2014 through June 30, 2018. During this evaluation period, FNBCT's LTD ratio ranged from a low of 74.83 percent to a high of 94.14 percent.

Management considers the banks shown in the following table to be similarly situated institutions (SSIs). All are community banks that actively offer similar loan products and have branch locations in the AAs.

The quarterly average LTD ratio for each SSI is listed in the following table. Please note that no ranking is intended or implied.

<b>Loan-to-Deposit Ratios</b>		
<b>Financial Institutions</b>	<b>Total Assets \$ (000's) (As of 6/30/2018)</b>	<b>Average Loan-to- Deposit Ratio</b>
<b>First National Bank of Central Texas</b>	<b>855,755</b>	<b>86.70%</b>
Central National Bank, Waco	893,626	87.40%
Community Bank and Trust, Waco	448,985	77.30%
American Bank, National Association, Waco	439,967	76.29%
Texas First State Bank, Riesel	398,914	41.11%

*Source: Institution Reports of Condition from December 31, 2014 to June 30, 2018.*

#### **Lending in Assessment Area**

As calculated on a bank-wide basis, a majority of the number of FNBCT's business loans were originated or purchased inside its AAs. As depicted in the table below, 84.21 percent of the number and 88.27 percent of the dollar amount of loans were originated or purchased inside the AAs.

<b>Table 1 - Lending Inside and Outside of the Combined AAs</b>										
	Number of Loans				Dollars of Loans					
Loan Type	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	80	84.21	15	15.79	95	10,031	88.27	1,333	11.73	11,364

Source: Loan sample.

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

FNBCT's overall borrower distribution of loans is reasonable. The borrower distribution of loans within the Waco MSA is reasonable. The bank's performance in the Hill Non-MSA is not consistent with the performance in the Waco MSA.

#### **Waco MSA**

The distribution of loans to businesses reflects a reasonable penetration among businesses of different sizes. Based on the data in Tables R in Appendix C for the 2015-2016 and the 2017 lending periods, the percentage of loans by number to small businesses is below but comparable to the percentage of small businesses in the AA. A small business is defined as a business with revenues of \$1 million or less. Although the percentage by the dollar volume of loans compares less favorably to the demographic in both lending periods, we placed the most weight on the number of loans originated or purchased.

#### **Limited-Scope AA**

Based on a limited-scope review, the bank's performance for borrower distribution of loans in the Hill Non-MSA is more favorable than the results of the Waco MSA. For both lending periods, the percentage of loans by number to small businesses exceeds the percentage of small businesses in the Hill Non-MSA.

#### **Geographic Distribution of Loans**

FNBCT's overall geographic distribution of loans is excellent. The geographic distribution of loans in the Waco MSA is excellent. The bank's performance in the Hill Non-MSA is generally consistent with the performance in the Waco MSA. We did not identify any material or unexplained gaps in our analysis of lending in the AAs.

#### **Waco MSA**

Business loans originated by the bank during the review period reflect an overall excellent geographic dispersion. As detailed in Tables Q in Appendix C, for the 2015-

2016 lending period, FNBCT's lending to businesses located in the moderate-income CTs exceeds the percentage of businesses located in those geographies. In 2017, FNBCT's lending in moderate-income CTs exceeded the comparator. For 2015-2016, the percentage of loans to businesses made in the low-income tracts is below the percentage of businesses in those geographies. However, in 2017, the bank's lending improved and exceeded the comparator.

### **Limited-Scope AA**

Based on a limited-scope review, the bank's performance for geographic distribution of loans in the Hill Non-MSA is consistent with the results of the Waco MSA.

### **Responses to Complaints**

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

## **COMMUNITY DEVELOPMENT TEST**

FNBCT's responsiveness to the community development needs of the AAs through CD lending, qualified investments, and CD services is adequate.

Our conclusion is based on the bank's performance context, full scope review of the Waco MSA, and a limited scope review of the Hill Non-MSA. In the Hill Non-MSA there are limited opportunities for qualified investments and CDs service due to its rural nature. The bank centers its CD efforts primarily in qualified lending and services.

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

The level of CD lending in the Waco MSA reflects an adequate responsiveness to CD needs. The level of CD lending in the Hill Non-MSA is consistent with the full scope AA.

### **Waco MSA**

The level of CD lending in the Waco MSA reflects an adequate responsiveness to CD needs. During the evaluation period, FNBCT originated 47 CD loans in the AA totaling \$6.3 million, or nine percent of allocated tier 1 capital. Following is how the bank deployed loan proceeds to make a positive impact on the credit needs of the AA.

- The AA has a need for affordable housing for LMI individuals and families. Accordingly, 44 of the CD loans totaling \$3.2 million provided affordable housing for lower-income borrowers and tenants.
- FNBCT also helped revitalize two low-income census tracts in Waco by originating two loans totaling \$3.0 million to construct storage buildings and office space.

- The bank financed the office building of Waco Community Development Corporation (Waco CDC) via a \$102 thousand loan. Waco CDC is a HUD approved housing counseling agency.

### **Limited-Scope AA**

The level of CD lending in the Hill Non-MSA is consistent with the results of the Waco MSA. During the evaluation period, FNBCT originated 11 CD loans totaling \$490 thousand in the Hill Non-MSA. CD Loans represent eight percent of allocated tier 1 capital.

### **Product Innovation and Flexibility**

FNBCT has a relationship with NeighborWorks Waco, a non-profit organization whose mission is to build stronger neighborhoods through homeownership, rental housing and community-building initiatives. NeighborWorks partners with the bank to provide interest-free loans for individuals under the Project Savers program with the purpose of helping individuals establish or boost their credit profile. FNBCT currently has 31 loan participants in Project Savers. FNBCT also finances construction loans for affordable housing that NeighborWorks builds for people in need. During the review period, this program generated four construction loans totaling \$355 thousand.

### **Number and Amount of Qualified Investments**

The level of qualified investments in the Waco MSA reflects an adequate responsiveness to CD needs. The level of qualified investments in the Hill Non-MSA is not consistent with the full scope AA.

### **Waco MSA**

The level of qualified investments in the Waco MSA reflects an adequate responsiveness to CD needs.

During the evaluation period, the bank made no equity or debt investments in the AA. FNBCT made 48 separate qualifying donations totaling \$136 thousand to CD organizations in the AA. This represented 0.20 percent of allocated tier 1 capital. Some of the significant donations include:

- \$27 thousand to the McLennan County Chapter of the United Way.
- \$36 thousand to the LEAD Program that benefits students from the predominately LMI school districts of Waco ISD and La Vega ISD. This program primarily benefits LMI youth through the program's business leaders fostering mentoring relationships that educate and expose students to various business fields through its after-school and summer programs. The goals are to expand the students' knowledge of higher education and potential career paths.

- \$19 thousand to Mission Waco to operate their relationship-based programs that empower the poor.

### **Limited Scope AA**

The level of qualified investments in the Hill Non-MSA is not consistent with the results of the full-scope AA. However, fewer opportunities were available due to the rural characteristics of the Hill Non-MSA.

### **Broader Statewide Area**

In response to flood disaster relief for the Houston area and the Major Disaster Declaration declared by the Federal Emergency Management Agency on August 25, 2017 (Hurricane Harvey), the bank donated \$2 thousand to the American Red Cross in September 2017.

### **Regional Area**

FNBCT donated \$5 thousand to the Tangipahoa Parish School in Louisiana to recover from the 2016 flood disaster.

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

The level of CD services in the Waco MSA reflects an adequate responsiveness to CD needs. The level of CD services in the Hill Non-MSA is not consistent with the full scope AA.

### **Waco MSA**

The level of CD services in the Waco MSA reflects an adequate responsiveness to the CD needs of the AA. Seven bank employees provided their expertise to nine CD organizations within the AA. Of the seven employees, four served in leadership roles in five of the organizations, either on the board or as a committee chairman, most on a continuing basis to the organizations. This equates to 57 percent of engaged employees serving in leadership positions within the AA. The employees serving in non-leadership roles taught financial literacy classes to LMI students and adults.

All CD service occurrences (in parentheses) are categorized in the community services CD criteria as they either benefit LMI individuals, families or geographies. Included are some of the CD organizations that bank staff assisted in their mission through the use of their financial and leadership skills:

- Waco Caritas (36) – Serving as a board member to assist this local non-profit organization in operating its food bank, thrift stores and other programs that support LMI individuals and families.

- Waco Lions Club (156) – Serving as a board member to assist the Waco chapter of this international service organization in operating its vision care programs for LMI youth in addition to operating and maintaining Lion's Park and Kiddieland, a non-profit amusement park owned by the Waco Lion's Park Trust for the benefit of all Waco children and their families.
- Family Abuse Center (24) – Serving as a board member to assist this local non-profit organization in sheltering victims of domestic violence and preventing abuse from occurring through intervention and education. Beneficiaries are primarily LMI women and children.

### **Limited Scope AA**

The level of CD services in the Hill Non-MSA is not consistent with the results of the Waco MSA. However, fewer opportunities were available due to the rural characteristics of the AA that has a total population of 35,000.

### **Responsiveness to Community Development Needs**

The bank demonstrates an overall adequate responsiveness to the community development needs of its AAs. The bank has invested time, personnel resources, and financing commitment to CD activities that benefit community organizations, LMI individuals and LMI geographies within its AAs.

### **Waco MSA**

The bank reflects an adequate responsiveness to meeting the CD needs of this AA. The board has identified affordable housing as the primary need in the AA to be met largely through the origination of CD loans. FNBCT's primary community development program, NeighborWorks Project Saver, is an initiative designed to help provide affordable homeownership and rental housing to LMI borrowers and tenants.

### **Limited Scope AA**

Although the level of qualified investments and CD services in the Hill Non-MSA is weaker than the Waco MSA, we consider the overall performance in the limited-scope AA to be consistent with the adequate responsiveness in the Waco MSA. Due to its rural nature, smaller population, and the limited number of LMI geographies, the Hill Non-MSA has limited opportunities for qualified investments and CD services.

## Appendix A: Scope of Examination

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

<b>Time Period Reviewed</b>	Lending Test (excludes CD loans): 01/01/2015 to 12/31/2017 Community Development Test: 01/06/2015 to 12/31/2017	
<b>Financial Institution</b>		<b>Products Reviewed</b>
First National Bank of Central Texas (FNBCT or bank) Waco, Texas		Commercial Loans Commercial Real Estate Loans Community Development Loans Qualified Investments Community Development Services
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
N/A		
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Texas  Waco MSA  Hill Non-MSA	Full-Scope  Limited-Scope	McLennan County only.  Hill County.

## Appendix B: Community Profiles for Full-Scope Areas

2016 Demographic Information for Full-Scope Area: Waco MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	51	13.73	19.61	31.37	31.37	3.92
Population by Geography	234,906	12.16	19.18	29.24	37.62	1.80
Owner-Occupied Housing by Geography	49,856	5.49	14.97	30.03	49.49	0.02
Businesses by Geography	14,301	5.12	21.56	30.98	41.71	0.63
Farms by Geography	589	1.53	8.49	35.31	54.33	0.34
Family Distribution by Income Level	55,570	22.12	17.33	19.47	41.08	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	21,921	16.47	30.09	29.79	23.65	0.00
Median Family Income HUD Adjusted Median Family Income for 2016 Households Below the Poverty Level	= \$53,712 = \$50,900 = 19.74%		Median Housing Value Unemployment Rate		= \$100,223 = 3.7%	

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

Source: 2010 U.S. Census, 2016 FFIEC updated MFI and Bureau of Labor and Statistics.

2017 Demographic Information for Full-Scope Area: Waco MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	51	13.73	29.41	25.49	27.45	3.92
Population by Geography	241,505	10.37	29.80	23.16	35.05	1.63
Owner-Occupied Housing by Geography	50,850	4.49	22.14	26.93	46.44	0.00
Businesses by Geography	14,815	5.02	31.28	25.17	37.96	0.57
Farms by Geography	604	1.82	13.58	36.92	47.52	0.17
Family Distribution by Income Level	57,860	22.52	17.72	17.96	41.80	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	23,285	13.44	41.67	23.24	21.66	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2017 Households Below Poverty Level	= \$56,779 = \$57,500 = 20.02%		Median Housing Value Unemployment Rate		= \$112,021 = 3.3%	

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

Source: 2015 U.S. Census American Community Survey, 2017 FFIEC updated MFI and Bureau of Labor and Statistics.

The bank's AA consists of all of McLennan County that is part of the U.S. Census Waco, TX MSA. Falls County which is also part of the U.S. Census Waco, TX MSA is not included in the AA. The bank's AA, identified herein as the Waco MSA, is comprised of 51 CTs including seven low-income, ten moderate-income, 16 middle-income, 16 upper-income, and two not income-classified (NA). Low- and moderate-income tracts represent 33 percent of total CTs in the Waco MSA. FNBCT's main office and three branches are in the Waco MSA with one branch located outside of the Waco MSA in a moderate-income CT in Hill County. Please see the table immediately below.

Branch Locations			
County/Office Name	Facility Type	Census Tract Number	Census Tract Income Level
Hill County: 300 Elm, Hillsboro, TX	Branch & ATM*	9610.00	Moderate
McLennan County: 501 Texas Ave, Mart, TX 10332 China Spring Road Waco, TX 7500 W. Woodway Dr, Waco, TX 1835 North Valley Mills Dr, Waco, TX	Branch & ATM* Branch & ATM* Branch & ATM* Branch & ATM*	0036.01 0041.03 0037.07 0026.00	Middle Upper Middle Upper

*Source: Census data is per 2010 U.S. Census and 2015 U.S. Census American Community Survey.  
\*Cash-dispensing only.*

The results of the 2015 ACS became effective in 2017. The total number of CTs in the Waco MSA remains at 51 and the number of low-income CTs remained unchanged at seven. The number of moderate-income CTs rose from ten to 15, representing a 50 percent increase. The number of middle-income CTs now number 13, upper-income CTs are 14 and NA remains at two. Low- and moderate-income tracts increased from 33 percent of the total CTs in the Waco MSA to 43 percent. The 2015 ACS did not impact the income category designations of the CTs containing the bank's offices which remain as depicted in the above table.

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

The Waco MSA is a competitive banking environment filled with larger regional banks, community banks, and credit unions. The June 30, 2017 FDIC Deposit Market Share Report notes 24 banks operate 58 branches within the Waco MSA. FNBCT ranks first in the Waco MSA with a 13.35 percent deposit market share. The top five banks in terms of market share include FNBCT; Central National Bank; Bank of America, National Association; American Bank, National Association; and Community Bank and Trust. These banks account for 49.21 percent of the deposit market share in the Waco MSA. In addition, 14 credit unions are based in Waco.

According to the June 2018 edition of *Moody's Analytics*, job growth in Waco remains moderately above the national average. Professional/business service gains are offsetting losses in most other industries. Core manufacturing is the leading industry. Due to the increase in the federal spending budget, companies such as L3 Technologies, that performs maintenance and modifications of military aircraft, anticipate additional contracts. However, the company has multiple rounds of layoffs and recently announced that it is freezing salaried employees' pension plans. Baylor University remains a top employer in Waco. As enrollment trends continue to increase, demand for dormitory construction and other student housing will increase. Population increases in Waco have averaged 0.95 percent annually since 2014.

Even as the labor force has been expanding, the unemployment rate has remained low. For December 2017, the McLennan County unemployment rate was 3.3 percent compared to 3.7 percent for the state of Texas and 4.1 percent for the U.S. As shown in the table above, 20 percent of households in the Waco MSA live below the poverty level.

In addition to L3 Technologies and Baylor University, major employers include: Providence Healthcare Network, Baylor Scott & White Medical Center – Hillcrest, H-E-B, Sanderson Farms Inc., Wal-Mart Stores Inc., Examination Management Services Inc., Aramark, and Veterans Administration Medical Center. Additionally, based on 2015 ACS demographic data, there are 14,815 businesses in the Waco MSA. Of these businesses, 81.67 percent reported gross annual revenues of less than \$1 million. Approximately 86 percent of businesses in the Waco MSA have less than ten employees.

An interview with a management official from Greater Waco Chamber was recently conducted through another regulatory agency. The contact indicated that current lending opportunities include non-traditional financing for commercial projects. Affordable housing continues to be a need for the area along with loans for small businesses and start-ups.

## **Appendix C: Tables of Performance Data**

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### **Content of Standardized Tables**

A separate set of tables is provided for each state. All multistate metropolitan areas are presented in one set of tables. References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: (1) purchased loans are treated as originations/purchases; (2) “aggregate” is the percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MA/assessment area. Deposit data are compiled by the FDIC and are available as of June 30<sup>th</sup> of each year. Tables without data are not included in this PE. Tables are identified by both letters and numbers, which results from how they are generated in supervisory analytical systems. [Note: Do not renumber the tables.]

The following is a listing and brief description of the tables included in each set:

**Table O. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents aggregate peer data for the years the data is available.

**Table P. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MA/assessment area. The table also presents aggregate peer data for the years the data is available.

**Table Q. Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. Because small business data are not available for geographic areas smaller than counties, it may be necessary to compare bank loan data to aggregate data from geographic areas larger than the bank’s assessment area.

**Table R. Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenue** - Compares the percentage distribution of the number of

small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. The table also presents aggregate peer data for the years the data is available.

- Table S. Assessment Area Distribution of Loans to Farms by Income Category of the Geography** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. Because small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table T. Assessment Area Distribution of Loans to Farms by Gross Annual Revenues** - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm. The table also presents aggregate peer data for the years the data is available.
- Table U. Assessment Area Distribution of Consumer Loans by Income Category of the Geography** – Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of households throughout those geographies.
- Table V. Assessment Area Distribution of Consumer Loans by Income Category of the Geography** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of households by income level in each MA/assessment area.

**Table Q: Waco MSA Distribution of Loans to Small Businesses by Income Category of the Geography** 2015-16

Assessment Area:	Total Loans to Small Businesses (\$000)			Low-Income Tracts		Moderate-Income Tracts		Middle-Income Tracts		Upper-Income Tracts		Not Available-Income Tracts	
	#	\$	% of Total	% Businesses	% Bank Loans	% Businesses	% Bank Loans	% Businesses	% Bank Loans	% Businesses	% Bank Loans	% Businesses	% Bank Loans
Waco MSA	30	5,430	100.0	5.1	3.3	21.6	30.0	31.0	26.7	41.7	40.0	0.6	0.0

Source: 2016 D&B Data; 01/01/2015 - 12/31/2016 Bank Sample Data; "--" data not available.  
Due to rounding, totals may not equal 100.0

**Table Q: Waco MSA Distribution of Loans to Small Businesses by Income Category of the Geography** 2017

Assessment Area:	Total Loans to Small Businesses (\$000)			Low-Income Tracts		Moderate-Income Tracts		Middle-Income Tracts		Upper-Income Tracts		Not Available-Income Tracts	
	#	\$	% of Total	% Businesses	% Bank Loans	% Businesses	% Bank Loans	% Businesses	% Bank Loans	% Businesses	% Bank Loans	% Businesses	% Bank Loans
Waco MSA	30	3,745	100.0	5.0	10.0	31.3	33.3	25.2	16.7	38.0	40.0	0.5	0.0

Source: 2017 D&B Data; 01/01/2017 - 12/31/2017 Bank Sample Data; "--" data not available.  
Due to rounding, totals may not equal 100.0

**Table R: Waco MSA Distribution of Loans to Small Businesses by Gross Annual Revenues** 2015-16

Assessment Area:	Total Loans to Small Businesses (\$000)				Businesses with Revenues <= 1MM			Businesses with Revenues > 1MM		Businesses with Revenues Not Available	
	#	\$	% of Total	Overall Market	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	% Businesses	% Bank Loans
Waco MSA	30	5,430	100.0	--	81.4	70.0	--	5.8	30.0	12.8	0.0

Source: 2016 D&B Data; 01/01/2015 - 12/31/2016 Bank Sample Data; "--" data not available.  
Due to rounding, totals may not equal 100.0

**Table R: Waco MSA Distribution of Loans to Small Businesses by Gross Annual Revenues** 2017

Assessment Area:	Total Loans to Small Businesses (\$000)				Businesses with Revenues <= 1MM			Businesses with Revenues > 1MM		Businesses with Revenues Not Available	
	#	\$	% of Total	Overall Market	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	% Businesses	% Bank Loans
Waco MSA	30	3,745	100.0	--	81.7	66.7	--	5.9	33.3	12.5	0.0

Source: 2017 D&B Data; 01/01/2017 - 12/31/2017 Bank Sample Data; "--" data not available.  
Due to rounding, totals may not equal 100.0