



## **PUBLIC DISCLOSURE**

July 31, 2017

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

The State National Bank in West  
Charter Number 13022

100 North Main Street  
West, TX 76691

Office of the Comptroller of the Currency

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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## INSTITUTION'S CRA RATING: “Satisfactory”

The Lending Test is rated: “Satisfactory”.

Major factors that support this satisfactory rating include:

- SNB’s quarterly average loan-to-deposits (LTD) ratio of 23.05 percent for the twenty-two quarters since the last CRA examination is **reasonable**. The quarterly LTD ratio ranged from a low of 17.76 percent in September 2013 to a high of 27.68 percent in December 2016.
- SNB originated a **majority** of loans during the review period in the Assessment Area (AA), and meets the standards of satisfactory performance. The bank originated 75.0 percent by number and 76.5 percent by dollar amount of commercial and agriculture loans in the AA.
- The bank’s overall distribution of commercial loans and agriculture loans to businesses and farms of different sizes in the AAs exhibited **reasonable penetration**, and meets the standards for satisfactory performance.
- Geographic distribution analysis is not a criterion considered for evaluating the bank’s lending performance because there are no low- and moderate-income (LMI) census tracts (CTs) in the bank’s AAs, thus any analysis to evaluate the distribution of loans in low- and moderate-income tracts would not be meaningful.
- Bank responsiveness to complaints was not considered for evaluating the bank’s lending performance because there were no written CRA-related complaints received by the Bank or the OCC during the evaluation period.

## 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 usually have between 2,500 and 8,000 persons, and 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 refinancing, 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 ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development 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 Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county 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) and the Thrift Financial Reporting (TFR) 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

The State National Bank in West (SNB or Bank) is a single state community bank headquartered in West, Texas (pop. 2,816 according to 2010 U.S. Census). West is located about 85 miles south of Dallas and situated about halfway between Hillsboro and Waco off Interstate Highway 35. In 1909, the Bank was organized as the First State Bank, and as the years progressed, the bank changed its name to The State National Bank in West and was nationally chartered in 1926. SNB is wholly owned by the primarily local shareholders. There is no holding company, nor does it have any operating affiliates. SNB has one banking location, which has a physical address of 100 North Main Street in West, Texas.

SNB serves two AAs, the McLennan County AA, which represents a portion of the Waco Metropolitan Statistical Area (MSA), and the Hill County AA, which represents a portion of a non-MSA area. The AAs are comprised of large rural geographies. The Bank is located in the northern portion of McLennan County, located approximately five miles from the Hill County line, and situated such that it is accessible to persons in the communities it serves.

SNB offers a full range of deposit and loan products commensurate with a small community bank. Lending activity focuses on the general banking and credit needs of the communities it serves which are agriculture, commercial and consumer lending. Home loan financing opportunities are limited due to the rural nature of the AAs. The Bank has a drive-thru facility but currently no ATMs. Lobby and drive-thru hours currently meet the needs of its communities and do not arbitrarily exclude any low- and moderate-income individuals. Alternative banking services offered include telephone banking, debit cards, wire transfers, money orders, and online Internet banking with bill pay capabilities.

SNB's banking market is moderately competitive. SNB competes locally with Pointwest Bank, the longest standing independent financial institution headquartered in West. It was state-chartered in 1893. The closest other financial institutions, that do not necessarily serve the same communities as SNB and Pointwest Bank, are Citizens State Bank and The Citizens National Bank in Hillsboro (13 miles north), Educators Credit Union (12 miles south), and a branch of American Bank in Bellmead (15 miles south in north Waco).

As of June 30, 2017, Bank assets totaled \$71.9 million. Liabilities totaled \$65.7 million and capital was \$6.2 million. Loans totaled \$16.3 million and represented about 23 percent of assets. Agriculture and commercial (business) loans are SNB's primary loan categories, followed by commercial and residential real estate loans, at \$3.6 million and \$3 million, respectively. The following table reflects the composition of the loan portfolio as of June 30, 2017.

<b>Loan Type (as of June 30, 2017)</b>	<b>Dollar Amount \$ (000)</b>	<b>% of Total Loans (Dollar Amount)</b>
Real Estate	6,555	40.3
Agriculture	4,342	26.7
Commercial and Industrial	3,145	19.3
Consumer	2,235	13.7
Other	42	0.3
<b>Total</b>	<b>16,279</b>	<b>100%</b>

Considering the financial condition, stable and improving economy, various loan and deposit product and service offerings, and prior CRA performance, SNB has the ability to service the credit needs of its communities. There are no known legal or financial impediments to the bank's ability to meet the credit needs of its communities.

SNB received a Satisfactory rating in its previous CRA Performance Evaluation dated February 13, 2012.

## **Scope of the Evaluation**

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

This Performance Evaluation (PE) assesses the CRA performance of SNB under the Small Bank performance criteria. We utilized the Lending Test to evaluate SNB's record of meeting the credit needs of its AAs. This PE starts from the date of the Bank's previous CRA examination, covering the period from February 13, 2012, to July 31, 2017. Commercial and agriculture loans were identified as the Bank's primary loan products. Residential real estate loans are not a primary loan category for the Bank. We sampled 20 commercial loans and 20 farm loans from the period beginning January 1, 2014, through July 31, 2017, to evaluate lending inside the AA. No apparent anomalies were identified, and there were no affiliate bank activities to consider.

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

This evaluation includes separate full scope reviews of SNB's McLennan County AA and Hill County AA. Please refer to the table in appendix A for more information.

### **Ratings**

SNB's overall rating is based primarily on those areas that received full-scope reviews. More weight is given to the Bank's lending performance in the McLennan County AA where the Bank is located and the greater volume of loan activity to businesses and farms is generated. A geographic distribution analysis of the Bank's lending performance could not be performed due to the absence of low- or moderate-income geographies in SNB's AAs.

## **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 has engaged in discriminatory or other illegal credit practices.

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

## Conclusions with Respect to Performance Tests

SNB demonstrated satisfactory performance in meeting the credit needs of its AA. Our review focused on the Bank's primary lending products, commercial and agriculture loans. We sampled 20 commercial loans and 20 agriculture loans to determine the extent of lending within the AA, the distribution of loans to businesses and farms of different sizes, and the geographic distribution of business and farm loans in the AA. The Bank's quarterly loan-to-deposit ratio during the evaluation period is considered reasonable. A majority of the loans sampled were originated or purchased in the AA. Overall lending performance is reasonable with respect to the percentage of the number and dollar amount of business and farm loans originated to businesses and farms with gross revenues of \$1 million or less. More weight was given to the distribution of commercial loans to businesses and farms of different sizes within the McLennan County AA. More weight was given to the distribution of agriculture loans to farms in the Hill County AA as there are far more opportunities to make loans to farms than businesses in the Hill County. A geographic distribution analysis is not meaningful to the performance criterion because the AAs do not contain any low- or moderate-income geographies. There were no written CRA-related complaints against the Bank during the evaluation period to evaluate the Bank's responsiveness, thus this criterion is not applicable to the performance test.

### LENDING TEST

#### Loan-to-Deposit Ratio

SNB's average loan-to-deposit (LTD) ratio is calculated on an institution-wide basis using data reported in the bank's Consolidated Reports of Condition and Income since the Bank's previous CRA examination. Reflected in the table below is a comparison of LTD ratios of similarly situated financial institutions operating in the bank's AAs.

Institution	Assets as of 03/31/2017 (000s)	Average Quarterly LTD Ratio (12/31/2011 to 03/31/2017)
The State National Bank in West	\$70,612	23.05%
Pointwest Bank	\$98,493	34.36%

Source: Call Report data.

SNB's quarterly LTD ratio of 23.05 percent over the twenty-two quarters since the last CRA exam is **reasonable** and meets the standards of satisfactory performance when considering the Bank's size, lending capacity and opportunities, market competition, demographic and economic factors, AA credit needs, and overall business focus. SNB historically experiences very low loan demand. During the evaluation period, the Bank's quarterly LTD ratio ranged from a low of 17.76 percent in the quarter ended September 30, 2013, to a high of 27.68 percent in the quarter ended December 30, 2016.

Pointwest Bank is the only similarly situated financial institution operating in the AA and recorded a slightly higher quarterly average LTD ratio of 34.36 percent over the same period. Pointwest Bank is slightly larger in size (assets totaling \$98 million) and operates two branches in the Waco area (in China Spring and Hewitt) which affords the bank more lending opportunities. Its primary lending products are consumer and residential loans.

Institutions with primary operations in West historically have low quarterly loan-to-deposit ratios. As noted in the previous PE dated February 13, 2012, SNB and Pointwest Bank had quarterly loan-to-deposit ratios of 24.10 percent and 35.58 percent, respectively. SNB recorded its lowest quarterly LTD ratio within this evaluation period (17.76 percent) in September 2013, a period that shortly followed the April 2013 fertilizer plant explosion. In addition, the communities have a large population of depositors who have historically maintained large financial holdings on deposit with the banks, with minimal borrowing.

### Lending in Assessment Area

Depicted in Table 1 below is the proportion of lending inside versus outside SNB’s AAs calculated on an institution-wide basis. A **majority** of the commercial and agriculture loans originated during the evaluation period was in the AAs. As such, SNB meets the standards of satisfactory performance for this criterion. The Bank originated 75 percent of the combined commercial and agriculture loans sampled inside the AAs. Of the commercial loans sampled, 65 percent in number and 68.6 percent in dollars were originated inside the AAs. Of the agriculture loans sampled, 85 percent in number and 84.4 percent in dollars were originated inside the AAs.

Table 1 - Lending in the AAs McLennan and Hill counties										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	13	65.0	7	35.0	20	509,660	68.6	233,329	31.4	742,989
Agriculture	17	85.0	3	15.0	20	423,920	84.4	78,144	15.6	502,064
Totals	30	75.0	10	25.0	40	933,580	76.5	311,473	23.5	1,245,053

Source: Commercial and Agriculture Loan Samples.

### Lending to Businesses and Farms of Different Income Sizes

SNB’s record of lending to businesses and farms of different income sizes reflects **reasonable penetration**, and meets the standards of satisfactory performance. The conclusion regarding the borrower distribution of loans to businesses and farms of different sizes is based on a sample of 20 commercial loans and 20 agriculture loans originated in the AA for the period beginning January 1, 2014, and ending July 31, 2017.

Overall, the distribution of loans to businesses and farms in the AAs is reasonable and meets the standards of satisfactory performance given the absence of any low- and moderate-income CTs to assess bank performance, with respect to the geographic distribution of business and farm loans. However, the bank did not originate a sufficient volume of commercial loans in the Hill County AA for any meaningful borrower distribution analysis of loans to businesses.

McLennan County AA

As depicted in Table 2A below, SNB’s distribution of business loans reflects **reasonable penetration**, and meets the standards of satisfactory performance. The percentage of the number of commercial loans to businesses in the AA with revenues of \$1.0 million or less (95 percent) exceeds the demographic comparator (88.85 percent). However, the percentage of the dollar amount of commercial loans to businesses with revenues less than \$1.0 million (85.6 percent) lags the demographic comparator.

Table 2A - Borrower Distribution of Loans to Businesses in McLennan County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	88.85	5.51	5.64	100%
% of Bank Loans in AA by #	95.00	5.00	0.00	100%
% of Bank Loans in AA by \$	85.60	14.40	0.00	100%

Source: Commercial Loan sample; Dun and Bradstreet data.

As depicted in Table 2A below, SNB’s distribution of loans to farms in the AA reflects **excellent penetration**, and exceeds the standards of satisfactory performance. The percentage of the number of agriculture loans originated to farms in the AA reporting revenues of \$1.0 million or less (100 percent) meets the demographic comparator (100 percent).

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

Source: Agriculture Loan sample; Dun and Bradstreet data.

Hill County AA

No meaningful borrower distribution analysis of commercial loans to businesses in this AA was possible given the bank did not originate a sufficient volume of commercial loans in this AA.

As depicted below in Table 2A, SNB’s distribution of loans to farms reflects **excellent penetration**, and meets the standards of satisfactory performance. The percentage of

the number of agriculture loans originated to farms in the AA with revenues of \$1.0 million or less (100 percent) exceeds the demographic comparator (98.25 percent).

<b>Table 2A - Borrower Distribution of Loans to Farms in Hill County AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farms	98.25	1.75	0.00	100%
% of Bank Loans in AA by #	100.00	0.00	0.00	100%
% of Bank Loans in AA by \$	100.00	0.00	0.00	100%

*Source: Agriculture Loan sample; Dun and Bradstreet data.*

### **Geographic Distribution of Loans**

The Bank's AAs do not contain any low- or moderate-income CTs, thus a geographic distribution analysis would not be meaningful.

### **Responses to Complaints**

There were no CRA-related complaints during the evaluation period to evaluate the Bank's responsiveness.

## 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: (01/01/2014 to 07/31/2017)	
<b>Financial Institution</b>		<b>Products Reviewed</b>
The State National Bank in West (SNB) West, Texas		Commercial and Agriculture Loans
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
No Affiliates		
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
McLennan County Hill County	Full Scope Full Scope	

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

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### McLennan County

SNB continues to delineate a portion of McLennan County as an AA, which is part of the Waco MSA. This AA consists of three CTs, two middle-income (0042.01 and 0042.02) and one upper-income (0034.00). There has been no change in the McLennan County AA since the prior CRA examination. The Bank is located in a middle-income census tract (0042.01). According to 2010 U.S. Census data, the AA has a population of 13,991 and is largely rural. The AA consists of whole CTs, does not arbitrarily exclude LMI CTs, and includes the CT where the Bank is located. As such, the AA meets the requirements of the regulation.

The AA includes the small towns of Leroy, Tours, Gerald, Ross, and West where the bank is located. Based on 2010 U.S. Census data, the AA consists of 4,869 households, 3,433 families, and 5,419 housing units. Owner-occupied housing units total 3,783 and represent 69.8 percent of total housing. There are no low-income or moderate-income CTs in this AA. A majority of owner-occupied housing units is located in the middle-income geographies. The average median housing value is \$103,902. Low- and moderate-income families in the AA total 1,103 and approximately 38 percent of those households live in the middle-income CTs. Households living below the poverty level is relatively high at 11 percent, and 49 percent of those households live in the middle-income geographies. The average age of housing stock in the middle-income geographies is 39 years with an average median housing value of \$95,510. There are just over 800 business in the AA, with an almost equal percentage located in middle- and upper-income CTs. Of a total 82 farms, the majority (about 55 percent) are located in middle-income tracts.

Many in the AA commute into Waco for work where, according to Moody's Analytics, economic growth continues. Baylor University continues to increase its student body, which in turn creates jobs and an educated work force. Additionally, Baylor University's growth stimulates economic prosperity within the area. Residential construction has increased with population growth. McLennan County's proximity to Dallas, Austin, and Houston also helps propel its economic development. The area offers reasonable property costs and cost of living, which combined with location, encourages commercial development.

According to the Bureau of Labor Statistics, the unemployment rate for the Waco MSA overall was 6.9 percent in 2010. The unemployment rate subsequently improved to 3.9 percent in December 2016 and has remained steady. The state and national average unemployment rate as of June 2017 is 4.6 percent and 4.4 percent, respectively.

The table below summarizes 2010 Census Demographic Data for the McLennan County AA. There are no low-income or middle-income CTs in the AA.

Demographic Information for Full-Scope Area: McLennan County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	3	-	-	66.67	33.33	-
Population by Geography	13,991	-	-	53.31	46.69	-
Owner-Occupied Housing by Geography	3,783	-	-	50.65	49.35	-
Businesses by Geography	816	-	-	49.02	50.98	-
Farms by Geography	82	-	-	54.88	45.12	-
Family Distribution by Income Level	3,433	-	-	50.10	49.90	-
Distribution of Low- and Moderate-Income Families throughout AA Geographies	1,103	-	-	37.67	26.57	-
Median Family Income		Median Housing Value		= \$103,902		
HUD Adjusted Median Family Income for 2016	= \$59,404	Unemployment Rate (Waco MSA)				
Households Below the Poverty Level	= \$50,900	Dec 2010		=6.9%		
	= 11.05%	Dec 2016		=3.9%		

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2010 U.S. Census; 2016 HUD updated MFI; Bureau of Labor Statistics.

There are limited employment opportunities in West. In April 2013, an explosion at a local fertilizer plant left 15 people dead and crumbled scores of nearby buildings. Damage to infrastructure (roads, buildings, homes, sewer and water) led to diminishing property values and city tax revenue. Four years later, the town has seen a rebuilding of the high school and a new subdivision where many of the damaged houses were rebuilt on larger lots with increased gross living areas. Infrastructure projects to repair damaged streets, water and sewer lines, and the city's elevated water storage tank are underway, and much of the financing is expected from the Federal Emergency Management Agency (FEMA) or state grants. Major employers in and around West include the independent school district, the West Rest Haven nursing home, and the Sykora Family Ford car dealership.

The AA is primarily rural and agriculture-dependent, leaving many to commute into Waco for work. The economy in Waco is more diverse, with no industry representing more than 20 percent of the market. Professional, government, and healthcare industry sectors have posted strong growth in the area. The city's below-average cost of living and proximity to Dallas/Fort Worth, and the cities of Austin and San Antonio, and Houston, draw skilled talent to high-tech jobs. Major employers in the Waco area include Providence Health Center, Baylor University, Wal-Mart, Waco Independent School District, L-3 Communications (aerospace), Hillcrest Baptist Medical Center, and the City of Waco.

SNB's banking market is moderately competitive. SNB competes locally with the longest standing independent financial institution headquartered in West, Pointwest Bank that was state-chartered in 1893. The closest financial institutions to West include Citizens State Bank, The Citizens National Bank in Hillsboro (13 miles north), Educators Credit Union (12 miles south) and a branch of American Bank in Bellmead (15 miles south in north Waco). Loan demand in the AA remains relatively low. The Bank's agriculture lending opportunities are threatened by competition from other farm and land banks in the area such as AgTexas Farm Credit Services, Lone Star Ag Credit, and the Texas Land Bank. Additionally, there has been an influx of dealer financing for heavy farm equipment from manufacturers such as New Holland, John Deere, Kubota, Mahindra, and Ford.

The Bank's principal market continues to be the northern portion of McLennan County and southern portion of Hill County. The vast majority of the banking market is more centrally located in the Waco area where, according to the FDIC Market Share Report as of June 30, 2017, there are a total of 24 banks operating in 58 offices. First National Bank of Central Texas and Central National Bank lead in market share with a combined six offices. Their respective deposit market share is 13 and 11 percent, respectively. American Bank, NA, with 8 percent deposit market share, operates three offices in McLennan County. SNB and Pointwest Bank hold nominal deposit market shares at less than 2 percent in the overall McLennan County banking market. Additionally, there are three credit unions operating within close proximity of the SNB's AAs that also limit lending opportunities.

A community contact interview conducted during this evaluation indicated that because the area is very much agricultural-dependent, agriculture-based loans are the primary credit need in the community. Other credit needs would include small working capital loans for new businesses relocating to the downtown district, as well as consumer loans for car and truck financing. Much of the residential financing to rebuild the homes destroyed in the April 2013 fertilizer explosion was provided by the Federal Disaster Loan Program of the Small Business Administration.

The contact further indicated that local community banks have been active in meeting community needs. Many bank employees volunteer on non-profit boards or participate in the non-profits directly. When projects need financing or sponsorship, the local community banks are willing to at least discuss it and try to find a way to be involved.

## Hill County AA

The Hill County AA is located in a non-MSA area of Texas. The AA consists of a portion of Hill County and comprises five CTs, three middle-income tracts (9606.00, 9607.00 and 9611.00), and two upper-income tracts (9605.00 and 9614.00). There are no low- or moderate-income tracts in the AA. Four of the five CTs cover large geographic areas that stretch from the northeast corner and border of McLennan County to north of the city of Hillsboro, the county seat, and more than 20 miles from SNB in West. While the economy is generally stable, the region is primarily agriculture based. Small towns such as Aquilla, Abbott, and Mount Calm are situated in the southern-most portions of this AA where the Bank focuses much of its agriculture lending. Crops center on cotton, grain, sorghum, and corn. Lending opportunities in these areas is limited by a scarcity of small businesses and population that generally does not exceed 300. There is an operating cotton gin in Aquilla and Farmers Gin & Grain in Abbott. SNB does not have a branch in the AA, but its close proximity to the Hill County line (5 miles) allows it to reasonably serve these communities. For decades, the Bank has sought to meet the agricultural financing needs of these communities.

The table below summarizes 2010 Census Demographic Data for the Hill County AA. There are no low-income or middle-income CTs in the AA.

Demographic Information for Full-Scope Area: Hill County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	5	-	-	3	2	-
Population by Geography	16,862	-	-	43.15	56.85	-
Owner-Occupied Housing by Geography	4,833	-	-	46.00	54.00	-
Businesses by Geography	971	-	-	43.98	56.02	-
Farms by Geography	114	-	-	46.49	53.51	-
Family Distribution by Income Level	4,464	-	-	44.60	55.40	-
Distribution of Low- and Moderate-Income Families throughout AA Geographies	1,505	-	-	39.28	29.23	-
Median Family Income		Median Housing Value				= \$85,750
HUD Adjusted Median Family Income for 2016	= \$57,520	Unemployment Rate (Waco MSA)				
Households Below the Poverty Level	= \$52,400	Dec 2010				=6.9%
	= 13.17%	Dec 2016				=3.9%

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2010 U.S. Census; 2016 HUD updated MFI; Bureau of Labor Statistics.

Some residents in the AA commute to Waco, Hillsboro, and to a lesser extent the Dallas/Fort Worth area for work. In SNB's immediate lending area, the major employers include the independent school districts, and the few local fertilizer plants, cotton gins and grain mills.

Based on 2010 U.S. Census data, the AA has a population of 16,862 which is primarily located in the northern portions of the AA closer to Hillsboro and Whitney. Hillsboro and Whitney are too far north for SNB to reasonably serve. The AA consists of 6,279 households, 4,464 families, and 7,522 housing units. Owner-occupied housing units total 4,833 and represent 64 percent of total housing. There are no low-income or moderate-income CTs in this AA. The average median housing value is \$85,750. Low- and moderate-income families in the AA total 1,505 with approximately 39 percent of those households living in middle-income CTs. Households living below the poverty level is relatively high at 13 percent with just over half (54 percent) located in middle-income geographies. The average age of housing stock in the middle-income geographies is 45 years with an average median housing value of \$79,167. While non-farm businesses in the AA total 971, much of that is concentrated around Hillsboro and Whitney which management says are typically too far outside of their lending area and better served by larger banks in those areas. SNB demonstrates a reasonable performance in serving the 114 farm businesses in the AA.