



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

MAY 18, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

CENTRAL NATIONAL BANK

Charter Number 16626

**8320 U.S. Highway 84 West
Waco, TX 76702**

**Comptroller of the Currency
San Antonio – North Field Office
10001 Reunion Place, Suite 250
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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 (CRA) 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 reasonable in relation to peer institutions, averaging 81% since the prior evaluation.
- A substantial majority of CNB's loans are within the bank's assessment areas (AAs). Approximately 88% of the number and 94% of the dollar volume of loans were to borrowers within the bank's AAs.
- CNB's loan portfolio reflects a reasonable penetration of residential loans among families of various income levels and an overall excellent penetration of loans to businesses of different sizes.
- The geographic distribution of the bank's home loans reflects a reasonable dispersion, while business loans within the AA demonstrate outstanding dispersion throughout the AAs.
- CNB's community development performance demonstrates overall outstanding responsiveness to the community development needs of its primary AA.

SCOPE OF EXAMINATION

We evaluated CNB's CRA performance under the Intermediate Small Bank examination procedures, which include a lending test and a community development test (CD). 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, 2006, through April 30, 2009. In addition, our review focused on residential real estate for Home Mortgage Disclosure Act of 1975 (HMDA) reportable years 2006, 2007, 2008, and the first quarter of 2009. A data integrity review of the HMDA was conducted during this onsite examination to confirm the reliability of the HMDA Loan Application Register (LAR) data. We also performed a Community Development Test, reviewing community development loans, services, and qualified investments occurring since the last CRA examination in December 2005 through April 30, 2009. The CD test evaluates the bank's responsiveness to community development needs in its AAs.

Description of Institution

CNB is an intrastate bank headquartered in Waco, Texas. As of March 31, 2009, CNB had total assets of \$533 million and Tier 1 capital of \$43 million.

Wholly owned by Centrabanc Corporation, CNB operates at 4 different locations; the main office and one additional branch are located in Waco, and there is another branch in Temple and Georgetown, Texas. All four of the bank's branches are located within their stated AAs, which are contiguous and do not arbitrarily exclude low- to moderate-income (LMI) tracts. Since the last examination, a branch

and loan production office (LPO) in Temple were closed and replaced by a new branch in the same general area of Temple. There have been no significant changes to CNB's corporate structure, including merger or acquisition activities, since the last CRA examination.

The branches are generally located in areas that are 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) at branches and other locations in their market to make customer accounts accessible. The bank also offers a debit card that provides customers with additional access to their accounts at point-of-sale or ATM locations. All branch locations offer 24-hour ATM access.

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 and FHA and VA loans. Deposit products and services include a free standard checking account and an ATM access-only account that allows customers the ability 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.

Real estate and commercial lending are CNB's primary business focus, with consumer loans comprising a small portion of the loan portfolio. As of March 31, 2009, CNB reported total loans of \$416 million and had a 'total loans to total assets' ratio of 78%. The loan portfolio composition is summarized on the following table:

Table 1		
LOAN PORTFOLIO COMPOSITION		
Loan Category	\$ (000)	%
Real Estate (RE) Construction	57,706	13.86
RE Farmland	2,003	0.48
RE Residential (1-4 Family)	108,573	26.08
RE Multifamily	8,456	2.03
RE Nonfarm Nonresidential	112,523	27.03
Agricultural Production	1,525	0.37
Commercial & Industrial	103,406	24.84
Consumer Loans	19,182	4.61
Obligations of States & Political Subdivisions	136	0.03
Other Loans	2,781	0.67
Total Loan Portfolio	416,291	100%

Source: Institution Consolidated Reports of Condition as of March 31, 2009

CNB faces strong competition from area banks, savings and loans, and other financial institutions. 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 CD needs of its AAs. The bank was rated "Satisfactory" at its last CRA examination dated December 13, 2005.

CNB has three AAs, which are described below. All AAs are reasonable and do not arbitrarily exclude any LMI areas. The following provides information regarding the AAs, and additional information can be found in the bank’s Public File.

Description of Assessment Area

Waco MSA (McLennan County)

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 in this AA. McLennan County is located in Central Texas, with the city of Waco designated as the county seat, representing the largest city in the county. This area is made up of contiguous census tracts (CTs), which surround and include CNB’s respective business locations. This area meets the requirements of the regulation and does not arbitrarily exclude any LMI geographies. Demographic information from the 2000 Census is reflected on the following chart.

Table 2a					
DEMOGRAPHIC INFORMATION FOR WACO AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	51	9.8	27.45	31.37	31.37
Population by Geography	213,517	10.94	25.71	31.10	32.24
Owner Occupied Housing Units by Geography	84,795	4.8	18.68	36.55	39.97
Businesses by Geography	15,941	4.46	29.16	29.18	37.21
Farms by Geography	523	2.29	13.19	37.28	47.23
Family Distribution by Income Level	53,122	8.07	22.75	33.18	36.00
Household Distribution by Income Level	78,926	25.33	15.07	17.82	41.78
Census Median Family Income (MFI)	\$43,454	Median Housing Value		\$62,261	
HUD – Adjusted MFI: 2008	\$48,200	Households Below the Poverty Level		17.63%	
HUD – Adjusted MFI: 2007	\$50,400	Unemployment Rate		3.64%	
HUD – Adjusted MFI: 2006	\$49,100				

Source: 2000 U.S. Census Data and 2008 HUD updated income data

Based on 2000 Census data, the AA has a population of approximately 214 thousand. Five CTs are classified as low-income, while 14 are classified as moderate-income. There are nearly 85 thousand housing units in the AA, of which approximately 56% are owner-occupied, 37% renter-occupied, and the remaining units are vacant. Major employers located in and/or adjacent to the AA include hospitals, school districts, city and county governments, Baylor University, an aircraft modification company, grocery stores (HEB and Wal-Mart) and poultry processing plants.

In conducting an assessment of the bank’s CRA performance, we contacted various community organizations targeting local business and LMI populations in Waco to determine community needs and opportunities for local financial institutions. Based on these contacts, it was determined that affordable housing continues to be a need, although local institutions were generally complemented on their efforts in addressing this need. In addition, contacts explained that opportunities were present for local banks to reach out and educate LMI populations about financial and banking opportunities.

There is a large population of individuals that do not benefit from bank services due to a lack of financial skills and knowledge, and the inability to effectively manage bank accounts. This population could be assisted through educational efforts on the part of local banks. Overall, no critical needs were identified by community contacts, and banks were recognized as generally doing a satisfactory job of meeting the credit needs of the area.

Bell County AA (Killeen/Temple/Fort Hood MSA)

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, and has selected most of Bell County as its AA. The CTs in the western portion of the county near Killeen/Fort Hood have been excluded, which is inconvenient to their 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.

Table 2b					
DEMOGRAPHIC INFORMATION FOR KILLEEN/TEMPLE/FORT HOOD AA					
	#	% 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	9,285	0	15.77	40.14	44.09
Farms by Geography	367	0	7.08	38.69	54.22
Family Distribution by Income Level	30,195	0	11.20	45.68	43.13
Household Distribution by Income Level	42,845	22.32	15.91	20.25	41.52
Census Median Family Income (MFI)					
		\$46,108	Median Housing Value	\$72,899	
HUD – Adjusted MFI: 2008		\$52,000	Households Below the Poverty Level	12.74%	
HUD – Adjusted MFI: 2007		\$49,600	Unemployment Rate	2.6%	
HUD – Adjusted MFI: 2006		\$48,800			

Source: 2000 U.S. Census Data and 2008 HUD updated income data

Based on 2000 Census data, the AA has a population of approximately 114 thousand. No CTs are classified as low-income, while 6 are classified as moderate-income. Major employers located in and/or adjacent to the AA include hospitals, school districts, city and county governments, Temple College, and Fort Hood Army Base.

In conducting an assessment of the bank’s performance under the CRA, we contacted a community entity focused entirely on economic development in the city of Temple, to help determine community needs and opportunities for local financial institutions. Based on this contact, we determined that affordable housing is always a general need of the community, and local banks are doing a good job overall in meeting this particular need, and all credit needs of the community. This community contact identified CNB and three other institutions in particular as being outstanding in meeting credit needs.

Williamson County AA (Austin-Round Rock MSA)

The entire Austin-Round Rock MSA is comprised of Travis, Williamson, Hays, Caldwell, and Bastrop counties. CNB has selected the portions of Williamson County, including Georgetown and the immediate vicinity, as one of its AAs. CNB operates one full-service branch in Williamson County in the city of Georgetown, which is the county seat. Performance in this AA had the least impact to the overall rating due to the very low level of deposits and loans generated out of this branch. This AA meets the requirements of the regulation and does not arbitrarily exclude any LMI areas. Demographic information is shown on the table below.

Table 2c					
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	7215	0	11.99	49.65	38.36
Farms by Geography	289	0	4.5	68.17	27.34
Family Distribution by Income Level	17,647	0	4.38	50.58	45.04
Household Distribution by Income Level	21,986	15.82	13.77	20.07	50.34
Census Median Family Income (MFI)		\$67,232	Median Housing Value		\$132,946
HUD – Adjusted MFI: 2008		\$69,100	Households Below the Poverty Level		5.33%
HUD – Adjusted MFI: 2007		\$69,300	Unemployment Rate		1.32%
HUD – Adjusted MFI: 2006		\$69,600			

Source: 2000 U.S. Census Data and 2008 HUD updated income data

Based on the 2000 Census data, the AA has a population of approximately 63 thousand. No CTs are classified as low-income, while one CT is classified as moderate-income. Major employers located in and/or adjacent to the AA include the school district, county government, a hospital, Southwestern University, and the City of Georgetown.

In conducting the assessment of the bank’s CRA performance, we contacted two community organizations; one dedicated to providing needed services to LMI populations, and a public housing organization dedicated to providing affordable housing to LMI populations. Based on these contacts, we determined that there is a need for affordable housing, in particular rental units. However, opportunities for bank participation were somewhat limited in this AA according to the housing contact. In addition, there were opportunities for local banks to participate in more outreach and education of LMI populations pertaining to finance and banking. There is a large population of individuals that do not benefit from bank services due to a lack of financial skills and knowledge, and the inability to effectively manage bank accounts. This population could be assisted through educational efforts on the part of local banks. Generally, the contacts felt that local banks were satisfactorily meeting the credit needs of the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending Test

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

Loan-to-Deposit Ratio

CNB's net loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and AA credit needs. The bank's net LTD ratio averaged 81.18% over the 14 quarters since the last CRA examination and compares favorably with other community banks of similar size, location, and product offerings. CNB ranks third among a total of five similarly situated banks serving its AA. The other 4 banks had an average net LTD ratio averaging 81.6% over the 14 quarters since the last CRA examination. The LTD ratio is shown on the table below.

Institution	Assets as of 3/31/09 (\$000s)	Average Quarterly LTD Ratio Through 3/31/09
<i>Central National Bank</i>	<i>\$533,023</i>	<i>81.18%</i>
American Bank	\$355,345	77.14%
Extraco Banks	\$1,107,574	81.22%
First National Bank of Central Texas	\$427,581	95.77%
Community Bank and Trust	\$409,349	72.41%

Lending in the Assessment Area

A substantial majority of CNB loans originated during the evaluation period were within the bank's AAs, with 88% of the number originated, and 94% of the dollar amount originated falling within the bank's AAs. The table below details the bank's lending within the AA by number and dollar amount of loans originated during the evaluation period.

LENDING INSIDE THE AA										
Loan Type	Number of Loans					Dollar Volume of Loans (\$000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	447	86.8	68	13.2	515	61,195	80.9	14,481	19.1	75,676
Home Improvement	15	93.6	1	6.3	16	379	97.9	8	2.1	387
Refinance	86	90.5	9	9.5	95	15,306	93.7	1,035	6.3	16,341
Commercial (limited sample)	68	91.9	6	8.1	74	21,155	94.1	1,272	5.7	22,427
Totals	616	88.0	84	12.0	700	98,035	85.4	16,796	14.6	114,831

Source: Data reported under HMDA; Loan Sample

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Based on our sample, CNB’s level of lending to borrowers of different incomes and businesses of different sizes is reasonable within the bank’s three AAs. We did place slightly more weight on home loans since this is a consistently stated need in the entire AA. Although residential real estate lending to LMI borrowers in the AA is generally below area demographics, consideration of the bank’s performance context led to an overall conclusion that CNB meets the standard in residential real estate lending. The bank exceeds the performance standards in commercial lending. For evaluation under this criterion, small businesses are defined as businesses with less than \$1 million in annual revenue.

Performance in the Waco MSA (McLennan County AA)

We gave more weight to the bank’s performance in this MSA due to the fact that they have a more established presence here, with a substantial majority (75%) of the bank’s deposits collected from the two Waco branches.

Table 5a								
BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS								
WACO MSA – MCLENNAN COUNTY AA								
<i>Borrower Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
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	20.68	3.85	17.54	12.39	21.36	19.23	40.42	58.97
Home Improvement	20.68	0.00	17.54	16.67	21.36	8.33	40.42	66.67
Refinance	20.68	3.13	17.54	9.38	21.36	9.38	40.42	68.75

Source: U.S. Census Data; HMDA Data

As shown in Table 5a above, about 21% of AA families are low-income and nearly 18% are moderate-income. Comparatively, the bank originated less than 4% of its home purchase and refinance loans to low-income borrowers, and no home improvement loans. This data reveals that CNB’s lending to low-income families is substantially less than the area demographics in those CTs. However, the performance context bears consideration in this case. One of the Waco branches of CNB is located in an upper-income CT in the southern portion of the City, and is not positioned conveniently to the LMI areas located further north and east. The bank’s more central location is reasonably convenient to two of the five low-income CTs, but there is significant competition with CNB from institutions that are more accessible to those low-income tracts. Competition from other financial institutions, especially those offering less strict underwriting, has impacted the overall demand for mortgage loans at CNB. According to management and supported with Waco residential sale price information, there are also a limited number of homes available in the AA at selling prices for which low-income families could qualify. Families living below the poverty level represent 17.63% of the MSA population, which is also a consideration in evaluating the reasonableness of the borrower distribution. The bank’s origination of home loans to moderate-income families is reasonable given the performance context.

Table 5b				
BORROWER DISTRIBUTION OF LOANS TO BUSINESSES IN WACO MSA – MCLENNAN COUNTY AA				
<i>Business Revenues (or Sales)</i>	<i>≤\$1,000,000</i>	<i>>\$1,000,000</i>	<i>Unavailable/Unknown</i>	<i>Total</i>
% of AA Businesses	64.14	4.85	31.01	100%
% of Bank Loans in AA by #	90.48	9.52	NA	100%
% of Bank Loans in AA by \$	49.83	49.68	NA	100%

Source: Loan Sample; Dunn and Bradstreet data

As illustrated in Table 5b above, 64% of AA businesses reported having annual gross revenues of \$1 million or less. Comparatively, 90% of the number and 50% of the dollar amount of commercial loans sampled in the Waco MSA were made to businesses with annual revenues of \$1 million or less. The bank’s performance exceeds the standard and illustrates excellent penetration in lending to small businesses.

Performance in the Bell County AA (Killeen-Temple-Fort Hood MSA)

This MSA was given less consideration due to CNB’s lower level of activity in the Temple market. Approximately 21% of CNB deposits and 24% of loans are generated by the Temple location.

Table 6a								
BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN KILLEEN-TEMPLE-FORT HOOD MSA – BELL COUNTY AA								
<i>Borrower Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
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	4.10	16.27	6.15	22.15	17.95	44.66	69.23
Home Improvement	16.92	0.00	16.27	0.00	22.15	50.00	44.66	50.00
Refinance	16.92	4.26	16.27	4.26	22.15	2.13	44.66	80.85

Source: Data reported under HMDA; U.S. Census data

As shown in Table 6a above, about 17% of the AA families are low-income and 16% are moderate-income. Comparatively, CNB originated less than 5% of home purchase and refinance loans to low-income borrowers, and no home improvement loans. For moderate-income borrowers, just over 6% of home purchase loans, 4.3% of home refinance loans, and no home improvement loans were originated. CNB’s lending to LMI families is a lower percentage than the demographic comparative data. The performance context bears consideration. Competition from other financial institutions, especially those offering less strict underwriting standards, has impacted the overall demand for mortgage loans at CNB. According to management, and supported with MSA residential sale price information, there are a limited number of homes available in the AA at selling prices for which low-income families could qualify. Families living below the poverty level represent 12.74% of the MSA population, which is also a consideration in evaluating the reasonableness of the borrower distribution. Therefore, CNB’s level of home mortgage lending to LMI families generally meets the standard for satisfactory performance.

Table 6b				
BORROWER DISTRIBUTION OF LOANS TO BUSINESSES IN KILLEEN/TEMPLE/FORT HOOD MSA – BELL COUNTY AA				
<i>Business Revenues (or Sales)</i>	<i>≤\$1,000,000</i>	<i>>\$1,000,000</i>	<i>Unavailable/Unknown</i>	<i>Total</i>
% of AA Businesses	63.84	3.55	32.60	100%
% of Bank Loans in AA by #	77.78	22.22	NA	100%
% of Bank Loans in AA by \$	46.57	52.27	NA	100%

Source: Loan sample; Dunn and Bradstreet data

As illustrated in Table 6b above, about 64% of AA businesses reported having annual revenues of \$1 million or less. Comparatively, 78% of the number and 47% of the dollar amount of commercial loans sampled in the Killeen MSA were made to businesses with annual revenues of \$1 million or less. The bank’s performance generally exceeds the standard, and illustrates outstanding performance in lending to small businesses.

Performance in the Williamson County AA (Austin-Round Rock MSA)

This MSA was given minimal consideration due to CNB’s insignificant level of activity in the Georgetown market. Only 4% of both loans and deposits are presently generated out of this branch.

Table 7a								
BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN AUSTIN-ROUND ROCK MSA - WILLIAMSON COUNTY AA								
<i>Borrower Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
<i>Loan Type</i>	<i>% of AA Families</i>	<i>% of # of Loans</i>	<i>% of AA Families</i>	<i>% of # of Loans</i>	<i>% of AA Families</i>	<i>% of # of Loans</i>	<i>% of AA Families</i>	<i>% of # of Loans</i>
Home Purchase	13.72	0.00	17.55	0.00	23.85	13.33	44.88	86.67
Home Improvement	13.72	0.00	17.55	0.00	23.85	0.00	44.88	0.00
Refinance	13.72	0.00	17.55	0.00	23.85	20.00	44.88	80.00

Source: Data reported under HMDA; U.S. Census data

As shown in Table 7a above, about 14% of the AA families are low-income and nearly 18% are moderate-income. Comparatively, the bank originated no home purchase, improvement, or refinance loans to LMI borrowers. This data reveals that CNB’s lending to LMI families is significantly less than opportunities in those CTs, and demonstrates poor penetration. However, the performance context does bear consideration. CNB is a commercial-focused bank, and competing institutions offer more appealing products and programs geared towards helping qualifying LMI families with home ownership. Over the past few years, there have been few habitable homes priced under \$150 thousand, and homes in this price range are generally new tract homes with builders offering special incentives for buyers. Both deposits and loans out of that branch comprise only 4% of the total for CNB. Because of the bank’s very limited presence in Georgetown, competition presented by other institutions, and the lack of affordable housing options, it is not unreasonable that the bank would have such a poor penetration of lending here.

Table 7b				
BORROWER DISTRIBUTION OF LOANS TO BUSINESSES IN AUSTIN-ROUND ROCK MSA - WILLIAMSON COUNTY AA				
<i>Business Revenues (or Sales)</i>	<i>≤\$1,000,000</i>	<i>>\$1,000,000</i>	<i>Unavailable/ Unknown</i>	<i>Total</i>
% of AA Businesses	66.69	3.48	29.83	100%
% of Bank Loans in AA by #	70	30	N/A	100%
% of Bank Loans in AA by \$	30.74	69.26	N/A	100%

Source: Loan sample; Dunn and Bradstreet data

As illustrated in Table 7b above, about 67% of AA businesses reported having annual revenues of \$1 million or less. Comparatively, 70% of the number and 31% of the dollar amount of commercial loans sampled in the Williamson County AA were made to businesses with annual revenues of \$1 million or less. CNB's performance generally meets the performance standards, and illustrates satisfactory performance in lending to small businesses.

Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion throughout CNB's AAs. While the bank's strategic focus is on commercial-related loans, and originated more of these loans when compared to home loans, we placed more weight on home loans since this was a consistently stated need of the entire AA. We did not identify any conspicuous gaps in lending throughout CNB's AAs.

Performance in the Waco MSA

The geographic distribution of the loan sample is outstanding overall, as the bank demonstrated excellent dispersion in both home loans and business loans.

Home Loans

CNB's geographic distribution of home loans in this AA reflects an overall excellent dispersion throughout CTs of different income levels. Within low-income tracts, 4.8% of units are considered owner-occupied housing. CNB's number of home purchase loans to individuals in low-income tracts is 5.98%, which exceeds the demographic comparative information. However, CNB did not originate any home improvement or home refinance loans in these CTs, but those products do not have the same level of demand as home purchase loans at CNB, and so dispersion is still considered reasonable overall in these CTs. The bank's percentage of lending in moderate-income tracts – in home purchase and home improvement loans – is more than the demographic comparative information and is therefore considered excellent. Lending for refinance loans in moderate-income CTs is considered satisfactory, supporting a reasonable level of dispersion.

The following table gives further detail of the bank's performance as compared to the percentage of owner-occupied housing units in each CT income level.

Table 8a								
GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN WACO MSA – MCLENNAN COUNTY AA								
<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
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	5.98	18.68	21.37	36.55	32.05	39.97	40.60
Home Improvement	4.80	0.00	18.68	25.00	36.55	33.33	39.97	41.67
Refinance	4.80	0.00	18.68	12.50	36.55	21.88	39.97	65.63

Source: Data reported under HMDA; U.S. Census data

Business Loans

The geographic distribution of sampled business loans reflects an overall excellent dispersion throughout CTs of different income levels. In reviewing Table 8b below, CNB’s lack of lending in low-income CTs does not appear to compare favorably to the 4.5% of businesses located in low-income CTs in the AA. However, the Waco MSA has five low-income CTs, of which all are inconvenient to one of the branches. Three of five are inconveniently located to the more central bank location. One of the remaining CTs – which is located the most conveniently to the bank – has practically no businesses located within its boundaries, and the other is dissected by IH-35. Other institutions in the competitive Waco market are physically more convenient to the businesses located along the IH-35 corridor. Therefore, performance in the moderate-income CTs carried more weight. Here, the bank extended loans at 33% of the loan sample, compared to 29% of businesses physically located in moderate-income CTs, representing excellent dispersion.

Following is a table that details the bank’s performance as compared to the percentage of businesses in each CT income level.

Table 8b								
GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES IN WACO MSA – MCLENNAN COUNTY AA								
<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
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	4.46	0	29.16	33.33	29.18	19.05	37.21	47.62

Source: Loan sample; Dunn and Bradstreet data

Performance in the Bell County (Killeen-Temple-Fort Hood MSA)

Home Loans

CNB’s geographic distribution of home loans in this AA reflects a reasonable dispersion throughout CTs of different income levels. There are no low-income CTs in this particular AA. The percentage of owner-occupied housing in moderate-income CTs is 8.8%, which generally compares favorably to the bank’s lending percentages for the different types of home loans. The bank has greater demand for home purchase loans, so more significance was placed on this loan product when making a conclusion.

The following table further details CNB’s performance as compared to the percentage of owner-occupied housing units in each census tract income level.

Table 9a								
GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN KILLEEN/TEMPLE/FORT HOOD MSA – BELL COUNTY AA								
<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
<i>Loan type</i>	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	8.79	4.62	43.67	31.79	47.54	63.59
Home Improvement	0.00	0.00	8.79	0.00	43.67	50.00	47.54	50.00
Refinance	0.00	0.00	8.79	4.26	43.67	31.91	47.54	63.83

Source: Data reported under HMDA; U.S. Census data.

Business Loans

The bank’s geographic distribution of business loans in the Bell County AA reflects an overall reasonable dispersion throughout the CTs of different income levels. There are no low-income CTs in this AA. In moderate-income CTs, the bank demonstrates reasonable dispersion of lending to businesses based on our sample, as the 15.5% of bank lending in moderate-income CTs exceeds the 15.8% of AA businesses in moderate-income CTs.

Following is a table that details the bank’s performance as compared to the percentage of businesses in each census tract income level.

Table 9b								
GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES IN KILLEEN/TEMPLE/FORT HOOD MSA – BELL COUNTY AA								
<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
<i>Loan Type</i>	% 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	15.77	15.52	40.14	40.74	44.09	40.74

Source: Loan sample; Dunn and Bradstreet data

Performance in the Williamson County AA (Austin-Round Rock MSA)

Home Loans

CNB’s geographic distribution of home loans in this AA reflects a reasonable dispersion throughout CTs of different income levels.

There are no low-income CTs in this AA. Though CNB has no lending in moderate-income CTs, dispersion is still reasonable due to the performance context and the fact that there is only one moderate income CT in the AA.

CNB has a very limited presence in Georgetown, with only 4% of deposits and loans attributable to this location. In addition to a minor presence, the Georgetown area has a more limited variety of affordable housing compared to the bank’s key market of Waco and Temple. Median housing costs of approximately \$200 thousand, within the city limits of Georgetown where the branch is located, are higher than the surrounding county and make 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. In light of this information, the bank’s lending within moderate-income CTs is not unreasonable and meets the standard for satisfactory performance.

The following table further details the bank’s performance as compared to the percentage of owner-occupied housing units in each CT income level.

Table 10a								
GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN AUSTIN-ROUND ROCK MSA - WILLIAMSON COUNTY AA								
<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	2.55	0.00	49.84	40.00	47.61	60.00
Home Improvement	0.00	0.00	2.55	0.00	49.84	0.00	47.61	100.00
Refinance	0.00	0.00	2.55	0.00	49.84	40.00	47.61	60.00

Source: Data reported under HMDA; U.S. Census data

Business Loans

CNB’s geographic distribution of business loans in the Williamson County AA reflects excellent dispersion throughout the CTs of different income levels. There are no low-income CTs in this AA. In moderate-income CTs, the bank demonstrates excellent dispersion of lending to businesses based on our sample, as the 20% of bank lending in a moderate-income CT exceeds the 12% of AA businesses in moderate-income CTs.

Following is a table that details the bank’s performance as compared to the percentage of businesses in each CT income level.

Table 10b								
GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES IN AUSTIN-ROUND ROCK MSA - WILLIAMSON COUNTY AA								
<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
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	11.99	20	49.65	30	38.36	50

Source: Loan sample; Dunn and Bradstreet data.

Responses to Complaints

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

Community Development Test

CNB's performance under the Community Development Test is rated "Outstanding" overall. Based on a full-scope review, the bank's performance in the Waco MSA is outstanding, and 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 community development (CD) activities. We gave much 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 they have not focused on CD activities in that region.

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 AA

CNB originated or renewed twelve CD loans in this AA since the last CRA examination totaling \$2,818,510.

- \$1,402,000 originated to two related construction/home improvement companies that finance affordable loans to LMI individuals for the service of completing needed home improvements.
- \$673,892 renewed to an individual that provides multi-family housing for LMI individuals.
- \$104,179 renewed and \$327,400 originated to construct affordable housing for LMI individuals that revitalizes LMI areas. The company works with the City of Waco to get individuals in their homes.
- \$150,000 originated to a company that provides multi-family housing for LMI individuals; all bills are paid and weekly rental payments can be arranged.
- \$129,039 originated to an entity providing needed daycare services targeted to LMI individuals.
- \$32,000 originated to a non-profit entity that provides various needed community services targeted to LMI individuals.

Performance in the Bell County AA

CNB originated or renewed two CD loans in this AA since the last CRA examination totaling \$824,429.

- \$474,429 renewed 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.
- \$350,000 originated to an entity providing multi-family housing in an LMI area, primarily reserved for LMI senior citizens.

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 an equity investment of nearly \$1 million and qualified donations totaling \$144,634 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 AA

CNB made qualified investments totaling \$764,955 in this AA. Of this total, \$622,121 was invested in the Access Capital Community Investment Fund, which is an equity investment that supports LMI housing in the AA. Also, since the last examination, CNB granted funds totaling \$142,834 to various organizations that provide community services to LMI individuals in this AA. For example, \$52,310 was donated to the United Way of Waco 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.

Performance in the Bell County AA

CNB made qualified investments totaling \$316,591 in this AA. Of this total, \$314,791 was invested in the Access Capital Community Investment Fund, which is an equity investment that supports LMI housing in the AA. Also, since the last examination, CNB granted funds totaling \$1,800 to various organizations that provide community services to LMI individuals in this AA. For example, \$4,500 was donated to the Temple Community Free Clinic, which provides free healthcare to low-income 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 adequate 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 MSA

Although CNB does not have branches in any LMI census tracts, the location of one branch in this AA is convenient to some LMI 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, one officer assisted the local YMCA by serving as treasurer and helping to provide scholarships targeted to children from LMI families; another officer manages the finances of a foundation whose focus is to provide medical services to LMI individuals; and another officer has helped to educate LMI students about banking and basic financial knowledge.

Performance in the Bell County AA

Although CNB does not have branches in any LMI census tracts, it does maintain a centrally located full-service branch office and ATM in a CT that borders a larger 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.

A couple of bank officers provide CD services to qualifying programs in this AA. One officer assists by directing the finances of an organization that provides needed services to LMI children and parents, such as free clothing and nutritional education; another officer serves as a member of a financial committee for a church located in a moderate-income area that provides housing assistance to homeless and needy families in the AA.

Responsiveness to Community Development Needs

Performance in the Waco MSA

CNB's CD activities, as a whole, demonstrate outstanding responsiveness to the needs and opportunities in this AA. We contacted two community organizations in order to independently determine the needs of the Waco MSA and make our assessment of CNB's performance. Opportunities for CD lending are moderate and primarily in affordable housing, a consistent need in the Waco MSA. ***CNB's level of CD lending is outstanding.*** The bank has demonstrated excellent responsiveness to the continuing need of affordable housing by making a total of 10 loans totaling \$2.6 million for various housing projects, including multi-family projects allocated to LMI populations, and LMI housing construction and refurbishment. Through CD services, CNB has helped in a limited scope with the financial literacy of LMI populations, which was an identified opportunity for banks in the AA according to community contacts.

Performance in the Bell County AA

CNB's CD activities, as a whole, demonstrate adequate responsiveness to the needs and opportunities in this AA. We contacted one community organization to independently determine the needs of the Bell County AA, and make our assessment of CNB's performance. In general, the contact stated that local financial institutions are meeting the needs of the community, and there are no pressing CD issues that are not receiving attention. The contact mentioned four banks in particular that were notably involved in the community, and CNB was one of those institutions noted. In the past, affordable housing has been more of a critical need, which is why the bank has focused on lending for such projects.

Performance in the Williamson County AA

CNB has a limited presence in this AA, having one branch in Georgetown, with only about 4% of deposits collected in this AA as of the examination date. For the evaluation period, CNB has no CD loans or investments, and very limited CD services in Williamson County. Based on this data, CNB shows poor responsiveness to CD needs within this particular AA. This is mitigated somewhat by the bank's lower level of activity and presence in Williamson County, as well as a very competitive banking environment in that AA. Opportunities are considered moderate for the bank to be involved in CD activities. We contacted two community organizations to independently determine the needs of the Williamson County AA and make our assessment of CNB's performance. In general, both contacts stated that local financial institutions are meeting the needs of the community, and there are no pressing CD issues that are not receiving attention, though affordable housing is a stated need of the AA. Their comments also identified opportunities in outreach and teaching pertaining to financial expertise, and general knowledge of 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.