



Office of the  
Comptroller of the Currency

Washington, DC 20219

# INTERMEDIATE SMALL BANK

## **PUBLIC DISCLOSURE**

January 05, 2015

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First National Bank of Central Texas  
Charter Number 5850

1835 North Valley Mills Drive  
Waco, Texas 76710

Office of the Comptroller of the Currency  
Southern District  
10001 Reunion Place, Suite 250  
San Antonio, Texas 78216-4165

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with the safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

**INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

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

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

First National Bank of Central Texas (FNBCT) performance reflects satisfactory response to meeting community credit needs in its assessment areas (AA). Factors that support the rating:

- The loan-to-deposit (LTD) ratio averaged 78% during the evaluation period.
- A substantial majority of loans originated within the AA.
- Lending activities reflect reasonable penetration to businesses of different sizes and borrowers of different income levels.
- The geographic distribution of loans reflects excellent dispersion throughout the AA.
- Community development (CD) activities reflect adequate performance.

**Scope of Examination**

We evaluated FNBCT's performance using Intermediate Small Bank CRA Examination Procedures, which includes a Lending Test and a Community Development (CD) Test. The Lending Test evaluates performance based on lending activities of the bank. The CD Test evaluates performance based on CD lending, qualified investments, and CD services.

The evaluation period for the Lending Test covers the bank's performance from January 1, 2012 through September 30, 2014, and is representative of its lending strategy since the last CRA examination. The primary loan product is commercial loans, including real estate, which in total represents 61% of the loan portfolio. The evaluation period for the CD Test covers performance from September 8, 2011, the date of the last CRA examination to January 5, 2015, the date of this examination. We assessed lending performance using a sample of 20 commercial loans and 20 residential real estate loans originated during the evaluation period.

**Description of Institution**

FNBCT, a community bank headquartered in Waco, is located in McLennan County, Texas, and 100% owned by FCT Bancshares, Inc., a single-bank holding company.

FNBCT is a full-service bank that offers various loan and deposit products, as well as Internet banking, to individuals and businesses. In addition to the main office in Waco, the bank operates three branches in McLennan County (Woodway-Hewitt, China Spring, and Mart) and one branch in Hill County (Hillsboro). Each location offers standard banking services Monday through Friday and the Hillsboro location offers limited hours on Saturday. Each location has an automated teller machine (ATM), for a total of 5 ATMs. Since the last CRA examination, FNBCT has closed two ATMs previously located at Baylor Scott & White Hospital locations in the Waco area. The bank offers drive-through banking services and night deposit drop boxes at each location. FNBCT has not opened or closed any branches during the evaluation period.

As of September 30, 2014, FNBCT reported total assets of \$743 million. Net loans totaled \$522 million and represented 69% of total assets. As shown in the following table, commercial loans comprise the majority of the loan portfolio.

| Loan Portfolio Summary by Loan Product<br>September 30, 2014 |                       |                          |
|--|-----------------------|--------------------------|
| Loan Category  | Dollar Volume \$(000) | % of Outstanding Dollars |
| Commercial (Including Real Estate)                           | \$317,802             | 61%                      |
| Residential  | \$94,176              | 18%                      |
| Agricultural/Farm  | \$49,662              | 10%                      |
| Other Loans  | \$53,773              | 10%                      |
| Consumer   | \$6,613               | 1%                       |
| <b>Total</b>   | <b>\$522,026</b>      | <b>100%</b>              |

Source: September 30, 2014 Call Report

Based on its financial condition and size, there are no legal, financial, or other factors that inhibit FNBCT’s ability to meet credit needs in its AAs. The previous CRA examination, dated September 8, 2011, assigned an overall “Satisfactory” rating to the performance of the bank.

### Description of Assessment Areas

FNBCT has designated two AAs: McLennan County, which is part of the Waco Metropolitan Statistical Area (MSA) and Hill County, a rural non-MSA. Ninety percent of the bank’s deposits and 98% of the loans originate in the McLennan County AA. Ten percent of the deposits and less than 2% of the loans originate in the Hill County AA. Due to the low percentage of deposits and loans originated in the Hill County AA, it is not included in the Lending Test evaluation.

### McLennan County Assessment Area

The AA is comprised of 53 census tracts (CTs): 7 low-income, 10 moderate-income, 16 middle-income, 16 upper-income, and 2 that do not report income. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income geographies. Specific demographic and economic data for the AA is listed in the following table.

| Demographic and Economic Characteristics of McLennan County Assessment Area |         |
|---|---------|
| <b>Population</b>   |         |
| Total Population  | 234,906 |
| Number of Families  | 55,570  |
| Number of Households  | 82,998  |
| <b>Geographies</b>  |         |
| Number of Census Tracts   | 53      |
| % Low-Income Census Tracts  | 14%     |
| % Moderate-Income Census Tracts   | 20%     |
| % Middle-Income Census Tracts   | 31%     |
| % Upper-Income Census Tracts  | 31%     |
| % Census Tracts Not Reporting Income  | 4%      |

| <b>Demographic and Economic Characteristics of McLennan County Assessment Area</b> |          |
|--|----------|
| <b>Median Family Income (MFI)</b>  |          |
| 2010 MFI for AA  | \$53,712 |
| 2012 HUD-Adjusted MFI  | \$54,700 |
| 2013 HUD-Adjusted MFI  | \$50,000 |
| 2014 HUD-Adjusted MFI  | \$50,689 |
| <b>Economic Indicators</b>   |          |
| Unemployment Rate  | 4.45%    |
| % of Households on Social Security   | 28%      |
| % of Households Below Poverty Level  | 20%      |
| % of Households on Retirement  | 16%      |

Source: 2010 US Census Data

The AA has 93,656 housing units: 53% owner-occupied; 35% renter-occupied; and 11% vacant. Educational institutions and health care providers are the top employers in the Waco area, along with distributors and manufacturers. The main employers in the AA include Providence Health Centers, Baylor University, Texas State Technical College, Waco ISD, City of Waco, and Baylor Scott & White Health System. Higher education and health care continue as the main industries for the area.

The AA is highly competitive with primary competition coming from other national and state financial institutions, credit unions, and branch facilities of large regional and national institutions. Much of the competition is highly visible and offers very competitive rates on loans and deposits.

We conducted a community contact with a local small business development center. The interview disclosed the primary credit need of the AA is fostering the development and success of small businesses.

### Hill County Assessment Area

The AA is comprised of 11 CTs: zero low-income, 2 moderate-income, 6 middle-income, and 3 upper-income. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income geographies. Specific demographic and economic data for the AA is listed below:

| <b>Demographic and Economic Characteristics of Hill County Assessment Area</b> |        |
|--|--------|
| <b>Population</b>  |        |
| Total Population   | 35,089 |
| Number of Families   | 9,088  |
| Number of Households   | 12,988 |
| <b>Geographies</b>   |        |
| Number of Census Tracts  | 11     |
| % Low-Income Census Tracts   | 0%     |
| % Moderate-Income Census Tracts  | 18%    |
| % Middle-Income Census Tracts  | 55%    |
| % Upper-Income Census Tracts   | 27%    |

| Demographic and Economic Characteristics of Hill County Assessment Area |          |
|---|----------|
| <b>Median Family Income (MFI)</b>                                       |          |
| 2010 MFI for AA   | \$52,428 |
| 2012 HUD-Adjusted MFI   | \$49,300 |
| 2013 HUD-Adjusted MFI   | \$50,500 |
| 2014 HUD-Adjusted MFI   | \$47,817 |
| <b>Economic Indicators</b>  |          |
| Unemployment Rate   | 3.81%    |
| % of Households on Social Security                                      | 38%      |
| % of Households Below Poverty Level                                     | 14%      |
| % of Households on Retirement   | 19%      |

Source: 2010 US Census Data

Major employers in the AA include the Hillsboro Outlets, Hillsboro ISD, the City of Hillsboro, and Hill College. The AA has 15,907 housing units: 62% owner-occupied, 19% renter-occupied and 18% vacant. About 39% of households are low- to moderate-income.

We conducted a community contact with a local economic development corporation. The contact discussed potential projects using sales tax dollars for the purpose of industrial development and the development of more affordable housing.

## Conclusions with Respect to Performance Tests

### Lending Test

FNBCT’s performance under the Lending Test is **Satisfactory**. Our conclusion is based on a reasonable LTD ratio, a satisfactory lending performance within the bank’s AA, a satisfactory borrower distribution of loans within the bank’s AAs, and an excellent geographic distribution of loans within the AA.

### Loan-to-Deposit Ratio

The quarterly average LTD ratio is reasonable. FNBCT had a quarterly average LTD ratio of 78% for the timeframe from September 2011 through September 2014. The ratio ranged from a high of 87% at September 30, 2011, to a low of 72% at September 30, 2012. Based on call report information, the LTD ratio is 77% at September 30, 2014.

The following table shows the quarterly average LTD ratio for other banks located in FNBCT’s AAs. As the table reflects, the two banks with assets greater than \$700 million have similar quarterly average LTD ratios.

| Average Loan-to-Deposit Ratios              |  |                               |
|---|--|-------------------------------|
| Financial Institutions                      | Total Assets \$ (000's)<br>(As of 9/30/2014) | Average Loan-to-Deposit Ratio |
| Central National Bank                       | \$732,830                                    | 81%                           |
| Community Bank and Trust                    | \$387,928                                    | 78%                           |
| <b>First National Bank of Central Texas</b> | <b>\$742,782</b>                             | <b>78%</b>                    |
| American Bank, National Association         | \$409,865                                    | 70%                           |
| Texas First State Bank                      | \$344,357                                    | 38%                           |

Source: Call Reports from September 30, 2011 to September 30, 2014

**Lending in Assessment Area**

FNBCT exceeds the standards for satisfactory performance with a substantial majority of loans, 95% of the number and 79% of the dollar volume, originated inside the McLennan County AA. See the following table for details.

| <b>Lending in McLennan County Assessment Area</b> |                 |    |         |   |       |                  |    |           |    |           |
|---|-----------------|----|---------|---|-------|------------------|----|-----------|----|-----------|
| Loan Type   | Number of Loans |    |         |   |       | Dollars of Loans |    |           |    |           |
|   | Inside          |    | Outside |   | Total | Inside           |    | Outside   |    | Total     |
|   | #               | %  | #       | % |       | \$               | %  | \$        | %  |           |
| Commercial  | 19              | 95 | 1       | 5 | 20    | 4,793,391        | 74 | 1,650,000 | 26 | 6,443,391 |
| Residential RE                                    | 19              | 95 | 1       | 5 | 20    | 1,397,530        | 98 | 30,037    | 2  | 1,427,567 |
| Totals  | 38              | 95 | 2       | 5 | 40    | 6,190,921        | 79 | 1,680,037 | 21 | 7,870,958 |

Source: Loan sample

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

Overall, FNBCT meets the standards for satisfactory performance with reasonable distribution of loans to borrowers of different incomes and businesses of different sizes.

***Residential Real Estate Loans***

The distribution of residential real estate loans reflects reasonable distribution of loans originated to borrowers with low- or moderate-income levels. The percentage of loans to these borrowers is somewhat lower than the percentage of low- or moderate-income families in the AA, but showed improvement since the last CRA examination.

| <b>Borrower Distribution of Residential Real Estate Loans in McLennan County Assessment Area</b> |                  |                 |                  |                 |                  |                 |                  |                 |
|--|------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|
| Borrower Income Level  | Low              |                 | Moderate         |                 | Middle           |                 | Upper            |                 |
| Loan Type  | % of AA Families | % of # of Loans | % of AA Families | % of # of Loans | % of AA Families | % of # of Loans | % of AA Families | % of # of Loans |
| Residential Real Estate  | 22%              | 10%             | 17%              | 10%             | 20%              | 25%             | 41%              | 55%             |

Source: Loan sample, US Census data

***Commercial Loans***

Commercial lending activity reflects reasonable distribution of loans originated to businesses with annual revenues less than \$1 million (small businesses). The percentage of loans originated to small businesses is near to the percentage of small businesses in the AA.

| <b>Borrower Distribution of Loans to Businesses in McLennan County Assessment Area</b> |              |              |                     |       |
|--|--------------|--------------|---------------------|-------|
| Business Revenues (or Sales)   | ≤\$1,000,000 | >\$1,000,000 | Unavailable/Unknown | Total |
| % of AA Businesses   | 70%          | 4%           | 26%                 | 100%  |
| % of Bank Loans in AA by #   | 60%          | 40%          | -                   | 100%  |
| % of Bank Loans in AA by \$  | 41%          | 59%          | -                   | 100%  |

Source: Loan sample, US Census data

### Geographic Distribution of Loans

Overall, FNBCT exceeds the standards for satisfactory performance with excellent dispersion throughout the AA. As reflected in the following tables, the geographic distribution of residential and commercial loans reflects excellent dispersion through the AA. The tables reflect the percentage of loans originated in the low- or moderate-income AA exceeds the demographic data for those CTs.

| Geographic Distribution of Residential Real Estate Loans in McLennan County Assessment Area |                                |                 |                                |                 |                                |                 |                                |                 |
|---|--------------------------------|-----------------|--------------------------------|-----------------|--------------------------------|-----------------|--------------------------------|-----------------|
| CT Income Level   | Low                            |                 | Moderate                       |                 | Middle                         |                 | Upper                          |                 |
| Loan Type   | % of AA Owner Occupied Housing | % of # of Loans | % of AA Owner Occupied Housing | % of # of Loans | % of AA Owner Occupied Housing | % of # of Loans | % of AA Owner Occupied Housing | % of # of Loans |
| Residential Real Estate   | 5%                             | 30%             | 15%                            | 30%             | 30%                            | 25%             | 50%                            | 15%             |

Source: Loan sample, US Census data

| Geographic Distribution of Loans to Businesses in McLennan County Assessment Area |                          |                 |                          |                 |                          |                 |                          |                 |
|---|--------------------------|-----------------|--------------------------|-----------------|--------------------------|-----------------|--------------------------|-----------------|
| CT Income Level   | Low                      |                 | Moderate                 |                 | Middle                   |                 | Upper                    |                 |
| Loan Type   | % of AA Businesses/Farms | % of # of Loans | % of AA Businesses/Farms | % of # of Loans | % of AA Businesses/Farms | % of # of Loans | % of AA Businesses/Farms | % of # of Loans |
| Business  | 5%                       | 30%             | 20%                      | 40%             | 32%                      | 25%             | 43%                      | 5%              |

Source: Loan sample, US Census data

### Responses to Complaints

FNBCT did not receive any consumer complaints related to its CRA performance during the evaluation period.

### Community Development Test

FNBCT’s performance under the CD Test is **Satisfactory**. The volume and responsiveness of CD lending and CD services reflect reasonable responsiveness to the needs of the AAs. The level of qualified investments reflects poor responsiveness.

### Number and Amount of Community Development Loans

The bank demonstrates adequate responsiveness to the needs of the AAs through qualified CD loans. FNBCT originated 13 CD loans totaling \$845 thousand during the evaluation period. All of the CD loans originated in the McLennan County AA.

FNBCT continues to work with Neighborhood Housing Services of Waco (NHS), to assist first-time home buyers. The bank originates loans for the borrowers and holds the lien on a thirty-year fixed rate mortgage. NHS also assists the borrower by paying closing costs and holding a second lien on the property. FNBCT also originates loans to NHS so it can purchase properties rented to NHS clients. Since January 2012, the bank has closed 13 loans totaling \$845 thousand for NHS.

FNBCT originated an unsecured line of credit (LOC) of \$40 thousand to the nonprofit organization, Waco Community Development Corporation (Waco CDC), providing operational funds to the organization. It manages savings accounts for their clients that are matching funds accounts. The purpose is to provide financial education requirements to help first-time borrowers save for their down payment when purchasing a home. Waco CDC matches the amount of the deposits when the client completes the educational requirements. Since January 2012, the bank has opened 54 of the matching funds deposit accounts.

The bank continues to look for opportunities to participate in CD lending in the AA and across the region. It assisted Waco CDC in applying for a grant from the Partnership Grant Program of the Federal Home Loan Bank of Dallas in the second quarter of 2014. The bank continues to participate in the Federal Home Loan Bank of Dallas Homebuyer Equity Leverage Partnership Program (HELP). There have been no grants awarded since the previous evaluation.

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

FNBCT demonstrates poor responsiveness to the needs of the AAs through qualified investments. The bank provided a \$10 thousand donation to Waco CDC for neighborhood revitalization. There were no other qualified investments in the evaluation period.

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

FNBCT's CD services reflect adequate responsiveness to the needs and opportunities in the AA. Service delivery systems are reasonably accessible to geographies and individuals of different income levels in the AAs. Business hours and services are convenient and are accessible to all segments of the AA.

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

FNBCT provides adequate responsiveness to the needs of its community. The bank continues to work with Habitat for Humanity and partners with Adopt-A-School's Kinder-to-College program to educate students on financial responsibility.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 CFR 25.28(c), or 12 CFR 195.28(c), in determining a national bank's or federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.