



## **INTERMEDIATE SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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### **PUBLIC DISCLOSURE**

**September 05, 2006**

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

**Extraco Banks, National Association  
Charter Number 13778**

**18 South Main Street  
Temple, TX 76501**

**Assistant Deputy Comptroller  
San Antonio – North Field Office  
10101 Reunion Place Blvd., Suite 402  
San Antonio, TX 78216**

**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*

Extraco Banks, National Association (Extraco) has a satisfactory record of meeting community credit needs based on the following:

- The bank's quarterly loan-to-deposit (LTD) ratio is excellent as it is the highest ratio compared to similar banks in its assessment areas (AAs).
- A substantial majority of loans are within the bank's AAs. Approximately 89% of the number and 94% of the dollar volume of loans were to borrowers within the AAs.
- The loan portfolio reflects an adequate distribution of residential loans to families of various income levels and a strong dispersion to businesses of different sizes.
- The geographic distribution of loans reflects a reasonable dispersion throughout the AAs for residential and small business loans. Multifamily lending in low- and moderate-income (LMI) geographies is considered excellent.
- The level of community development lending, investments, and services is satisfactory overall.
- The bank has not had any complaints concerning its Community Reinvestment Act (CRA) performance during the evaluation period.

## **SCOPE OF EXAMINATION**

The evaluation period for the Lending Test includes HMDA and CRA Loan data that were reported for 2004 and 2005. The evaluation period for the Community Development Test covers the period since the prior CRA Evaluation, October 27, 2003, to the start date of this CRA Evaluation, September 5, 2006. Qualifying community development activities of Extraco Community Development Corporation (ECDC) are included under the Community Development Test.

Our conclusions are weighted more on a review of reported small business lending than HMDA loans. Small business lending represents 56%, while HMDA lending is 40% of reported lending, respectively.

A data integrity review was conducted in May 2006 for HMDA residential loans, small business loans, and community development activities. During this evaluation, additional data integrity procedures were done for community development activities that occurred since the May 2006 review. All data prepared by the bank and ECDC was considered reliable for use in the analyses of CRA performance.

## **DESCRIPTION OF INSTITUTION**

Extraco is an intrastate commercial bank chartered in 1933 and headquartered in Temple, Texas. Extraco is a wholly owned subsidiary of Extraco Corporation, a one-bank holding company headquartered in Waco, Texas. Extraco also provides other financial services through wholly-owned subsidiaries, including mortgage lending activities through Extraco Mortgage Corporation (EMC), one of the largest privately held mortgage operations in the U.S. Another subsidiary, ECDC, makes loans and small donations in McLennan County designed primarily to promote public welfare. Activities of ECDC are included in this Performance Evaluation (PE).

Extraco has fifteen (15) offices and twenty-two (22) automated teller machines (ATMs) in four AAs. Eight locations, including the main banking office, are in the Killeen-Temple-Fort Hood (KTFH) Metropolitan Statistical Area (MSA). Five offices are in the Waco MSA, one office is in Georgetown, Texas, which is part of the Austin-Round Rock MSA, and one office is in Hamilton, Texas, which is in Hamilton County, a Non-MSA. All AAs consist of contiguous census tracts (CTs) and do not arbitrarily exclude LMI geographies. Due to a highly competitive banking market in Waco, management has focused its marketing and expansion efforts in the KTFH MSA.

This Office assigned a “Satisfactory” rating under Large Bank criteria in the last PE dated October 27, 2003. Since that evaluation, Extraco opened a branch location in Georgetown, Texas, in June 2005, and in Waco, Texas, in August 2006. The bank defined five (5) contiguous CTs comprising the city of Georgetown as an AA.

As of June 30, 2006, Extraco had total assets of just over \$1 billion and held \$80 million in Tier 1 capital, which represents 8% of total assets. The bank’s primary focus is small business loans, followed by home mortgage lending within its AAs. Most of the small businesses represent family enterprises and closely-held businesses. For additional information on the composition of the bank’s loan portfolio as of June 30, 2006, see Table 1 below. For additional information on the products and services offered by Extraco, please refer to the bank’s CRA Public File.

<b>Table 1 (Composition of the bank's loan portfolio as of June 30, 2006)</b>		
<b>LOAN TYPE</b>	<b>DOLLAR AMOUNT\$ (000)</b>	<b>% OF TOTAL LOANS</b>
Real Estate (RE) Residential (1-4)	200,228	32 %
RE Nonfarm Nonresidential	167,501	26 %
RE Construction, Land Development	37,958	6 %
Consumer	75,936	12 %
Agriculture Production	6,121	1 %
Commercial and Industrial	62,152	10 %
RE Farmland	18,989	3 %
Multifamily	9,725	1 %
Obligations of States & Political Entities	34,947	6 %
Other	17,035	3 %
<b>Total</b>	<b>\$630,592</b>	<b>100%</b>

Source: Consolidated Reports of Condition June 30, 2006

Extraco provides a wide range of traditional deposit and loan products. Branches are generally located in areas that make them accessible to persons from the different areas of the communities they serve. Lobby and drive-up hours are set by location to meet customer needs, and Extraco has ATMs at branches and other locations in their AAs to make customer accounts accessible.

Customers may also access their accounts through the Internet or via telephone banking. Internet banking (IB) services include transfers between Extraco accounts, review of balances or transactions, and bill-paying capability. The bank also offers a debit card that provides customers with additional access to their accounts at point of sale or ATM locations.

Based on the bank's financial condition, size, and branch network, there are no legal impediments or other factors which inhibit the bank's ability to meet the AA's credit needs.

## **DESCRIPTION OF ASSESSMENT AREAS**

The KTFH AA was selected for full scope review because a significant majority of the bank's reported loans (61%) and deposits (69%) are within this AA. This AA also has over half (8/15) of all bank offices. The KTFH AA is located in Central Texas, and is comprised of contiguous CTs over two counties. The seats for Bell and Coryell counties are Belton and Gatesville, respectively. The largest cities within these counties are Temple (Bell), Killeen (Bell), Gatesville (Coryell), and Copperas Cove (Coryell). The Fort Hood Army Base (Fort Hood) is also located in the AA, and is the largest active duty armored post in the United States Armed Forces.

Extraco also has three limited-scope AAs. The Waco AA consists of 45 CTs out the 51 tracts which make up the Waco MSA. The Georgetown City AA consists of 5 contiguous CTs that include the city of Georgetown, Texas, which is a part of the Austin MSA. The Hamilton County AA includes the three CTs that make up Hamilton County, a Non-MSA.

The AA designations meet the requirements of the regulation and do not arbitrarily exclude LMI geographies. A further description of the KTFH AA is presented below.

### ***Description of KTFH AA***

Based on the 2000 Census data, the KTFH AA has a population of approximately 296 thousand. The AA is comprised of one low-, 11 moderate-, 33 middle-, and 12 upper-income CTs. There are 112 thousand housing units in the AA, of which 52% are owner-occupied, 40% are renter-occupied and 8 % are vacant.

### ***Demographic and Economic Data***

Economic conditions within the KTFH AA are strong, as evidenced by consistent annual growth in the cities of Temple, Killeen, and Fort Hood. Growth is primarily concentrated to the south of Killeen. Extraco faces strong competition within the AA from large regional banks, branches of nationwide banking companies, and other area community banks. Also competing for customers are numerous credit unions and finance companies.

The KTFH housing market is strong, primarily due to strength in the Killeen market. The city of Killeen continues to issue numerous housing permits on a monthly basis with an aggregate annual construction value in the tens of millions of dollars. The 2005 Coldwell Banker Annual Home Price Index listed Killeen as the most affordable housing area in the United States with an average home price of \$131 thousand. The market also has a considerable rental housing segment. According to the 2000 U.S. Census data, of the 112 thousand housing units in the AA, 44 thousand were occupied rentals with an average monthly rent of \$549. This is slightly lower than the National median gross rent of \$602 for the same period.

Shortly after the 2000 census, responsibility for post housing on base at Fort Hood was turned over to a partnership. Under the terms of the contract, most of the base housing has been remodeled or rebuilt, including hundreds of new units. More new homes are being built. According to recent reports, more than 5,900 housing units are set to be rebuilt or renovated at Food Hood. As of June 2006, over 2,800 families are on a waiting list for family housing.

Unemployment remains above the state and national averages. The Texas Workforce Commission reported the Killeen area's jobless rate in June of 2006 to be 6%, an increase from 5.1% reported for April and 5.2% reported for May. The commission called the increases a seasonal trend due to layoffs occurring as a result of schools recessed for the summer vacation. Comparatively, the State of Texas reported 5.5% unemployment rate in June, up from May's 4.9%. Nationally, jobless claims also edged upward from 4.4% in May to 4.8% in June.

Fort Hood is the largest single employer in the AA. As such, the post has a tremendous impact on the local economies. Over the years, the federal government has closed several bases throughout the Unites States; however, Fort Hood continues to remain a stable stronghold of the Armed Forces, covering a total of 339-square miles and employing approximately 60,000. Other major employers

located in and/or adjacent to the AA include defense contractors, school districts, city and county governments, medical facilities, and local colleges and universities. Non-farm business dominates the area, specifically in the services and retail trade sectors.

Table 2 reflects demographic information for the AA derived from the 2000 Census.

<b>Table 2 (Demographic and Economic Characteristics of Killeen-Temple-Fort Hood AA)</b>	
<b>Population</b>	
Number of Families	75,598
Number of Households	102,758
<b>Geographies</b>	
Number of Census Tracts (CTs)	57
% Low-Income CTs	1.75
% Moderate-Income CTs	19.30
% Middle-Income CTs	57.89
% Upper-Income CTs	21.05
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	42,776
2005 Department of Housing and Urban Development (HUD) - Adjusted MFI	47,300
<b>Economic Indicators</b>	
Unemployment Rate	2.66
2005 Median Housing Value	72,375
% of Households Below Poverty Level	11

Source: 2000 Census data and 2005 HUD updated income data.

Four community contacts for the KTFH AA were considered during this evaluation. One was performed earlier this year and two were done during this evaluation.

A prior contact with an affordable housing organization in the Killeen area indicated a high need for affordable housing programs for home purchase and rental. The contact further stated that local residents were wait-listed for these programs as the City of Killeen assisted 4-thousand evacuees from Hurricane Katrina. While a supply of rental units may exist, renters often do not have the deposit, which can equal 2-3 months' rent by some landlords. Continued Fort Hood deployments have freed up a number of housing units, and demand continues for both of these housing programs. Funding for these programs is provided through the U.S. Department of Housing and Urban Development (HUD). In addition, the City of Killeen receives funds from the Home Investment Partnership Act Program. The community contact was complimentary on the local institutions' performance in meeting community credit needs.

The three additional contacts were done with local economic development organizations, a small business organization and an affordable housing nonprofit. The contacts were consistent in assessing the Temple/Belton/ Killeen area as economically strong, with active growth in both population and business activity, primarily south toward Georgetown and the Austin corridor, and

west toward Killeen and Fort Hood. As a result, one of the greatest needs in the KTFH MSA is for new moderate-and middle-income housing to accommodate the growing population for the jobs being created. One contact noted that the inventory of LMI housing is adequate, but not abundant. Evidence cited was the organization’s short waiting list for its housing units. One contact stated that local banks seem more responsive in providing credit services for local businesses and local nonprofit agencies than the branches of the large nationwide banks. The last contact indicated a need for small business financing and financial literacy, especially with the closure of a small business development company. All stated that banking products were generally adequate and available to meet community credit needs.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Lending Test

The bank’s performance under the Lending Test is rated “Satisfactory.” To assess performance under this factor, we used information relative to home loan and small business loan products originated and reported in 2004 and 2005.

### Loan-to Deposit Ratio

Extraco’s LTD ratio is considered excellent, given its asset size, financial condition, and lending opportunities in the AA. The average LTD ratio since the previous CRA examination increased slightly from 76.5% at last examination, to 77.3% for the eleven quarters ended June 30, 2006. The ratio was 78.9% at June 30, 2006.

Such performance is excellent given the competitive nature of the AA and available loan demand. Also, the LTD ratio is excellent when compared with the other banks headquartered in the AA. During the period from October 2003 to June 2006, competing banks had LTD ratios ranging from 36.5% to 85.6%. Only First State Bank of Central Texas occasionally exceeds Extraco’s LTD ratio in this time frame.

INSTITUTION	ASSETS (6/30/2006)	LTD Ratio (6/30/06)
First Texas Bank, Lampasas	101,545	42.5
First National Bank Texas, Killeen	617,638	44.7
<b>Extraco Banks NA, Temple</b>	<b>951,287</b>	<b>78.9</b>
First State Bank of Central Texas	724,429	73.8
The National Bank, Gatesville	419,498	60.6

Source: Institution Consolidated Reports of Condition

## Lending in Assessment Area

Extraco's lending in its AA exceeds the standard for satisfactory performance. The bank originated a substantial majority of all HMDA and CRA small business and small farm loans that were reported in 2004 and 2005. Extraco originated 89% of the number and 94% of the total loan dollars in its combined AAs.

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

Extraco's loan portfolio reflects a reasonable distribution of residential loans among families of various income levels and an excellent dispersion to businesses of different sizes, with emphasis on small business lending.

Extraco's penetration of home mortgage loans to families of varying income levels meets the standard for satisfactory performance. The percentage of bank loans to LMI families for home purchase is below the percentage of such families in the MSA, but the percentage of such loans in the bank's portfolio (at 8.33% and 10.83% of bank loans) is more than half the population percentage standards. This is satisfactory because it reflects successful efforts to lend to these applicants. It is often difficult for LMI families to qualify for mortgage loans at the median housing value because of insufficient income levels and/or down payments. Extraco supports programs within the AA that are aimed at helping LMI individuals qualify for home loans by providing help with the down payment. Details of our analysis can be found in the following table.

<b>BORROWER DISTRIBUTION OF LOANS FOR RESIDENTIAL REAL ESTATE</b>				
<b>Killeen-Temple-Fort Hood Assessment Area</b>				
<b>Borrower Income Level</b>	<b>LOW</b>	<b>MODERATE</b>	<b>MIDDLE</b>	<b>UPPER</b>
<b>% of AA Families</b>	<b>16.93</b>	<b>19.47</b>	<b>23.55</b>	<b>40.05</b>
	<b>% of Bank Loans</b>	<b>% of Bank Loans</b>	<b>% of Bank Loans</b>	<b>% of Bank Loans</b>
<b>Home Purchase</b>	<b>8.33</b>	<b>10.83</b>	<b>20.83</b>	<b>60.00</b>
<b>Home Improvement</b>	<b>12.59</b>	<b>16.08</b>	<b>16.08</b>	<b>55.24</b>
<b>Home Mortgage Refinance</b>	<b>5.26</b>	<b>15.79</b>	<b>26.32</b>	<b>52.63</b>

*Source: Data reported in 2004 and 2005 HMDA Loan Application registers*

The percentage of loans originated to businesses with revenues of less than \$1 million during our evaluation period was excellent. The percentage of businesses within the AA that generated revenues less than \$1 million was 66.28% based on independent data provided by Dunn and Bradstreet. Extraco originated 62.82% of its total small business loans to businesses with revenues less than \$1 million. This percentage of loans was only slightly less than the characteristics of the AA.



<b>BORROWER DISTRIBUTION OF LOANS TO BUSINESSES</b> <b>Killeen-Temple-Fort Hood AA</b>		
<b>Business Revenues or Sales</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>
% of AA Businesses	66.28%	33.72%
% of Bank Loans in AA #	62.82%	37.18%

*Source: Data reported in 2004 and 2005 CRA Loan Application Registers*

### **Geographic Distribution of Loans**

Extraco's geographic loan distribution is reasonable and meets the standard for satisfactory performance. The analysis shows that the bank has made a reasonable effort to extend credit in LMI geographies. The bank's penetration of mortgage loans is excellent given the demographics of the AA. While Extraco made no home loans in the one low-income geography, this is reasonable given the very limited opportunities in this area (only 0.18% of owner occupied housing are in low income areas). Extraco's lending in moderate-income census tracts is excellent as the bank's performance exceeds the percentage of owner-occupied housing in these geographies.

<b>GEOGRAPHIC DISTRIBUTION OF LOANS FOR RESIDENTIAL REAL ESTATE</b> <b>Killeen-Temple-Fort Hood AA</b>				
Census Tract Income Level	<b>LOW</b>	<b>MODERATE</b>	<b>MIDDLE</b>	<b>UPPER</b>
% Owner Occupied in AA	<b>0.18</b>	<b>8.01</b>	59.51	32.31
	% of Bank Loans	% of Bank Loans	% of Bank Loans	% of Bank Loans
Home Purchase	<b>0.0</b>	<b>8.84</b>	49.40	41.77
Home Improvement Loans	<b>0.0</b>	<b>8.78</b>	53.38	37.84
Home Mortgage Refinance	<b>0.0</b>	<b>4.71</b>	60.00	35.29

*Source: Data reported under 2004 and 2005 HMDA*

The geographic distribution of the loans for multifamily housing is excellent. The bank's performance exceeds the comparable demographics in both LMI geographies. The financing of affordable housing in the KTFH AA addresses a current need identified by a community contact.

<b>GEOGRAPHIC DISTRIBUTION OF LOANS MULTI-FAMILY HOUSING</b> <b>Killeen-Temple-Fort Hood AA</b>				
Census Tract Income Level	<b>LOW</b>	<b>MODERATE</b>	<b>MIDDLE</b>	<b>UPPER</b>
% of AA Owner Occupied	<b>3.41</b>	<b>33.18</b>	48.06	15.35
	% of Bank Loans	% of Bank Loans	% of Bank Loans	% of Bank Loans
<b>Multi-Family Housing</b>	<b>12.5</b>	<b>62.5</b>	12.50	12.50

*Source: Data reported under 2004 and 2005 HMDA*

The geographic distribution of the bank's loans to small businesses in LMI geographies is well below the percentage of small businesses in these areas. However, opportunities in low-income tracts are limited due to the limited number of low income tracts and the corresponding low level of small businesses in these areas (3.8%).

<b>GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES</b>				
<b>Killen-Temple-Fort Hood AA</b>				
<b>Census Tract Income Level</b>	<b>LOW</b>	<b>MODERATE</b>	<b>MIDDLE</b>	<b>UPPER</b>
% of AA Small Businesses	3.76%	16.83%	53.00%	26.41%
	% of Bank Loans	% of Bank Loans	% Bank Loans	% of Bank Loans
<b>% Small Business Loans</b>	.75%	4.65%	68.37%	26.24%

Sources: CRA Loan data reported in 2004 and 2005, and 2005 Dunn & Bradstreet

## **Responses to Complaints**

There have been no consumer complaints relating to the bank's CRA performance during the evaluation period.

## **Community Development Test**

The bank's performance under the Community Development Test is rated "Satisfactory." Based on a full-scope review, performance in the KTFH AA is satisfactory.

## **Community Development Loans**

Qualified community development (CD) loans are loans that meet the definition of CD as defined in the CRA regulation. Opportunities for CD lending are high and primarily in affordable housing, an identified need in the KTFH AA. The level of CD lending is satisfactory. The bank has demonstrated adequate responsiveness to the identified need for affordable housing in the KTFH area by making several multifamily loans for projects, which rent at the median housing rates for LMI families. Since the last evaluation, the bank has made 9 CD loans for \$2.8 million, all for affordable housing in the AA, an identified need in this area.

Seven of these loans totaled \$2 million and resulted in 186 rentable units, with 91 or 49% of the units at or below the median rental rate for low-income families, and 75 or 40% at the median rental rate for moderate-income families. In loan dollars, \$986 thousand funded low-income units and \$813 thousand funded moderate-income units. One loan for \$737 thousand was made for the purpose of developing 95 lots in Belton. The homes are targeted for sale at prices that are considered affordable housing. One loan for \$65 thousand was to the Killeen-Temple Habitat for Humanity for general operating expenses.

## **Community Development Investments**

Qualified investments are investments, deposits, membership shares, or grants that have as their primary purpose community development, as defined in the CRA regulation. The level of CD investments is adequate in view of the limited opportunities for CD investments. The most significant is a \$1 million investment with the CRA Fund. The entire amount has been allocated to

the Texas Public Finance Authority Unemployment Compensation Obligation Assessment Revenue Bonds, a qualifying investment with statewide benefit. These bonds are targeted to programs of the Texas Workforce Commission across the state of Texas, and whose primary purpose is to benefit LMI in the state of Texas through child care services, unemployment training and efforts, and various other referral services. Person who qualify for these programs include those who qualify for AFDC (Aid to Families with Dependent Children), and TANF (Temporary Assistance to Needy Families), and primarily in locations with identified high levels of LMI persons. The bank has made five other qualified CD investments, totaling \$18 thousand, primarily to organizations that provide community services. These include the United Way of Central Texas (\$13 thousand) and to the Belton Christian Youth Center (\$4 thousand).

### **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. Opportunities for CD services are considered moderate and primarily in the areas of affordable housing and community services. The level of CD services is adequate. Most qualifying services have involved provision of financial literacy education for prospective first-time homebuyers, Habitat for Humanity clients, and LMI students. And in three cases, Extraco officers provided qualifying financial assistance to disaster victims of Hurricanes Rita and Katrina.

### **Conclusions for Areas Receiving Limited-Scope Reviews**

Based on limited-scope reviews, the bank’s performance under the Community Development Test in the Waco MSA exceeds the bank’s overall Satisfactory performance under this test. The levels of CD loans, investments and services are significantly higher than in the full-scope area. Qualifying loans totaled \$9.2 million (\$8.2 million for revitalization/stabilization, and \$980 thousand for affordable housing). Qualifying donations totaled 11 for \$74 thousand, including a donation of \$7 thousand by the ECDC. Qualifying services involved primarily financial literacy/education, fundraising, shared financial expertise, and other financial services. The bank is involved in several noteworthy programs, including The City of Waco Affordable Housing Project, Waco CDC Revitalization of Waco Inner City program, and administration of a down payment assistance program in partnership with the Federal Home Loan Bank of Dallas. Performance in the Georgetown City AA and in the Hamilton County Non-MSA is not inconsistent with the bank’s overall Satisfactory performance under the Community Development Test.

### **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.