



## **PUBLIC DISCLOSURE**

May 4, 2016

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Central National Bank  
Charter Number 16626  
8320 W. Highway 84, Waco, TX 76712

Office of the Comptroller of the Currency  
225 E. John Carpenter Freeway, Suite 900, Irving, Texas 75062

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, 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: Outstanding.**

Major factors that support this Satisfactory rating include:

- The bank's loan-to-deposit (LTD) ratio is **reasonable**.
- A **majority** of loan originations and purchases are within the bank's assessment area (AA).
- The distribution of residential and business loans to borrowers of different income levels exhibits **reasonable penetration**.
- The bank's geographic distribution of residential and business loans to low- and moderate-income (LMI) census tracts reflects **reasonable dispersion**.
- The overall level of responsiveness of community development (CD) lending, investments, and services is **excellent**.

## Scope of Examination

The Performance Evaluation (PE) assesses the bank's record of meeting the credit needs of the communities in which it operates. We evaluated Central National Bank's (CNB) performance under the Intermediate Small Bank (ISB) Test using the Interagency Community Reinvestment Act (CRA) procedures, which include a lending test and a CD test. CNB's lending performance is evaluated using the small bank-lending test. The CD test evaluates a bank's CD lending, investments and services activities.

The current review focused on the bank's primary loan products, including a sample of commercial-related loans from January 1, 2014 through December 31, 2015. In addition, our review focused on residential real estate loans as reported for the Home Mortgage Disclosure Act (HMDA) in the years 2014 and 2015. A data integrity review of the loans reported for HMDA conducted prior to this examination confirmed the reliability of the HMDA Loan Application Register (LAR) data. As part of this examination, we performed a CD test, reviewing CD loans, services, and qualified investments occurring since the last CRA examination (June 25, 2012) through March 31, 2016.

The evaluation is based on accurate data as follows:

- We tested HMDA data for residential mortgages reported by the bank to verify the accuracy of data used for this evaluation. We found the data reliable to use for this evaluation.
- To evaluate CNB's performance, we selected a random sample of 78 business loans originated during this timeframe. CNB purchased no business loans during the evaluation period. We used the entire population of originated business loans to complete Table 1 (Lending in AAs) of the Lending Test.
- We also verified CD loans, investments, and services submitted by management to ensure they met the regulatory definition for CD. We excluded any items that did not meet the definition or purpose of CD.

We did not consider the activities of affiliates in this evaluation.

## Description of Institution

Central National Bank (CNB) is an intrastate community bank headquartered in Waco, Texas, which is located in McLennan County. The bank is owned by Centrabanc Corporation, a one-bank holding company. The bank has four branch locations with two located in the Waco area (Central West and Central Tower), one in Temple and one in Austin. Since the prior PE, the bank has closed its Georgetown branch and opened a full-service branch in downtown Austin, the same location of its loan production office. The branches are located in areas accessible to customers in the bank's AAs. Lobby and drive-thru hours are set by location to fit the needs of the community's customers.

All branches are open Monday through Friday but the Waco Central West lobby, its main office, is also open on Saturday with limited hours of operation (9 a.m. to noon). All branches with the exception of Austin have drive-thru lanes open during the same hours on Saturdays. Automated Teller Machines (ATMs) are available at the bank's branch facilities and are accessible 24 hours, 7 days a week.

CNB has three AAs, McLennan County (a portion of the Waco Metropolitan Statistical Area [MSA]), Bell County (a portion of the Killeen/Temple/Fort Hood MSA), and a portion of Travis County (a portion of the Austin/Round Rock MSA). The bank has branch locations in each of its AA. The selected AAs are considered reasonable and do not arbitrarily exclude any low- and moderate-income (LMI) areas. Detailed information regarding the AAs is provided below, and additional information can be found in the bank's Public File.

CNB offers traditional loan products and services such as automobile, commercial, consumer, adjustable rate mortgage, FHA mortgage, home equity, and home improvement loans, to name a few. CNB offers traditional demand deposit accounts and interest-bearing accounts for commercial and personal use. CNB provides 24-hour account access via a phone-based system known as the "The Informant" that allows customers to check account balances, transfer funds between accounts, request bank statements via fax, or activate/deactivate debit cards. CNB also offers customers access to their accounts through CentraNet! Cash Manager, an online banking system. The online banking system allows customers (from computer, tablet, or smart phone) to view account balances, view account history and check images, reorder checks, place stop payments, transfer funds between accounts, make loan payments, and setup bill payments. Other services include mobile-accessed remote deposit capture and P2P (Person-to-Person) Payments, in addition to ACH origination and wire transfer services for authorized customers.

As of March 31, 2016, the bank had total assets of \$782 million with total loans at \$597 million, representing 76 percent of total assets. The origination of commercial and residential real estate loans and commercial business loans are CNB's primary business strategy and focus. Residential real estate loans account for 45 percent of the bank's total loan portfolio. In aggregate, commercial real estate and commercial & industrial (business) loans represent 41 percent of the bank's total loan portfolio.

<b>LOAN PORTFOLIO SUMMARY BY PRODUCT</b>		
<b>Loan Category</b>	<b>Dollar Volume \$(000)</b>	<b>% of Outstanding Dollars</b>
Construction and Land Development	21,554	4%
Farmland / Agricultural Production	6,511	1%
RE Residential (1-4 Family)	271,587	45%
RE Multifamily	21,920	4%
Commercial RE	119,448	20%
Commercial & Industrial	126,856	21%
Consumer Loans	10,084	2%
Other Loans	19,670	3%
<b>Total Loan Portfolio</b>	<b>597,630</b>	<b>100%</b>

*Source: Institution Consolidated Report of Condition as of March 31, 2016*

CNB faces strong competition from large and regional bank branches, community banks, and credit unions in its AAs. CNB faces no financial or legal impediments that would prevent it from meeting the credit and community needs of its AAs.

The bank was rated “Satisfactory” at its last CRA examination dated June 25, 2012.

## **Description of Assessment Areas**

### **FULL SCOPE ASSESSMENT AREAS:**

#### **Description of the McLennan County Assessment Area**

The McLennan County AA is part of the Waco MSA, located in Central Texas. Waco is McLennan County’s largest city and the county seat. Waco is approximately 90 miles south of Dallas/Fort Worth and 100 miles north of Austin. Interstate Highway 35 (IH-35), U.S. Highway 84, and Texas State Highway 6 traverse Waco and McLennan County, linking it to multiple major economic regions of the state.

Performance in the McLennan County AA was given more consideration due to the volume of lending and deposit activity generated in the Waco area where the bank operates two branches. Information provided by CNB indicates that approximately 68 percent of the bank’s loan volume and 74 percent of the deposit base is from the Waco area.

Central National Bank – Loans and Deposits by AA (in 000s)				
	Waco	Temple	Austin	Total
Total Deposits	\$501,512	\$152,200	\$23,161	<b>\$676,872</b>
Net Loans	\$402,060	\$134,683	\$53,502	<b>\$590,245</b>
Loan-to-Deposit Ratio	80%	88%	231%	<b>87%</b>

Source: Internal bank report as of March 31, 2016

The AA is comprised of 51 census tracts (CTs), consisting of seven low-income CTs, ten moderate-income CTs, 16 middle-income CTs, 16 upper-income CTs, and two CTs that are not income-classified. According to the 2015 Federal Financial Institutions Examination Council (FFIEC) Report, none of McLennan County’s middle-income CTs are classified as either distressed or under-served. A Veterans Hospital (VA) occupies almost one entire moderate-income CT and; therefore, lending opportunities in this CT are limited. The bank has properly defined its AA in accordance with the technical requirements of the CRA regulation. The AA consists of whole CTs, does not arbitrarily exclude LMI CTs, and includes the CTs where the bank branches are located. The AA meets requirements of the regulation, does not reflect illegal discrimination, and does not arbitrarily exclude any LMI geographies. CNB’s main office and one other branch are located in this AA. Both locations are located in middle-income CTs, but are adjacent to moderate-income CTs.

The following table summarizes the demographic data for McLennan County.

Demographic Information for McLennan County AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts (CT)/BNAs)	51	13.73	19.61	31.37	31.37	3.92
Population by Geography	234,906	12.16	19.18	29.24	37.62	1.80
Owner-Occupied Housing by Geography	49,856	5.49	14.97	30.03	49.49	0.02
Business by Geography	16,026	4.99	20.57	30.96	42.89	0.59
Family Distribution by Income Level	55,570	22.12	17.33	19.47	41.08	0.00
Households by Geography	82,998	13.01	19.34	30.02	37.61	0.03
Median Family Income		53,712	Median Housing Value		100,223	
FFIEC Adjusted Median Family Income for 2015		55,300	Unemployment Rate (March 2016 BLS)		McLennan County 3.9%	
Households Below Poverty Level		19.74%				

Source: 2010 US Census, 2015 FFIEC updated MFI, and Bureau of Labor Statistics

The AA population has maintained a healthy growth rate. The county’s population continues to grow and is 234,906 according to the 2010 Census. This is up 10 percent over the 2000 Census count of 213,517 and 24 percent over the 1990 Census count of 189,123. Waco offers opportunities for professional development and workforce training with three higher education institutions (Baylor University, McLennan Community College and Texas State Technical College) collectively enrolling over

31,000 students. Residents of Waco enjoy an array of community assets, from arts to education to major college sports to a vibrant downtown on the Brazos River.

The AA has a diverse economy with no industry representing more than 20 percent of the market. Major employers in the Waco area include Providence Health Center, Baylor University, Wal-Mart, Waco ISD, L-3 Integrated Systems (Aerospace), Hillcrest Health System, City of Waco, HEB Stores, Midway ISD, and Sanderson Farms, Inc. The city's below-average cost of living and proximity to Dallas/Fort Worth, Austin, San Antonio, and Houston draws skilled talent.

Waco's economic stability is enhanced by the diversity of its economic base. The strength of this diversity is evident as the unemployment rate of 3.9 percent remains below the state and national averages of 4.2 percent and 5.0 percent, respectively, as of March 2016. Poverty levels in the AA, however, are higher than national and state averages. The 2010 Census Data reports that 20 percent of the AA households and 14.1 percent of AA families live below poverty levels.

In evaluating the borrower distribution of home loans in the AA, we considered the impact from above average poverty levels. In addition, we considered the average age of the housing stock and the median housing value in the AA. According to the 2010 Census, the average age of the housing stock was 39 years for low-income CTs with a median housing value of \$51,556. For moderate-income CTs, the average age was 47 years with a median housing value of \$69,437. Less than 21 percent of the housing units in the low-income CTs are owner occupied. Almost 40 percent of families have annual incomes that place them in the LMI categories. Accordingly, LMI geographies account for one-third of the CTs in the AA based on the 2010 Census.

The Greater Waco Chamber of Commerce is actively involved in the economic future of Waco and shaping the community into a viable and desirable home for businesses and families. The Chamber is strategically investing in economic and CD initiatives to transform Waco and the Brazos riverfront area. Efforts to transform the local workforce, economic development opportunities, quality of life and the local landscape takes a collaborative effort among the chamber, city of Waco, community partners, businesses, local universities, and many more. To assist with this initiative, the Chamber of Commerce has launched numerous campaigns to generate sufficient funds for this much-needed cause. The area banking industry is committing time and resources to address these issues. CNB pledged \$85,000 from 2016 to 2020 to the Chamber of Commerce through the *Build Greater Waco Fund* campaign. Additionally, the CNB has teamed up with other local banks to provide needed funds to renovate and revitalize the Dr. Pepper Museum and the Waco Humane Society, which are both located in moderate-income CTs. The pledged amounts are \$10,000 for the museum and \$20,000 for the Waco Animal Shelter over a two-year period.

The city of Waco has created tax increment financing zones (TIFZ) for the purpose of facilitating the revitalization and development of the city core and along the Brazos River Corridor. The city of Waco facilitates downtown events to help promote downtown

businesses and facade improvement grants to improve the appearance of downtown buildings. A large number of businesses and diverse organizations are situated within the TIFZ located in downtown Waco.

The AA is a competitive banking environment filled with large and regional bank branches, community banks, and credit unions. The FDIC Market Share Report as of June 30, 2015, indicates that 25 institutions operate 59 branches within the bank's AA. CNB ranks third among the total group of banks with a deposit market share of 10.10 percent. First National Bank of Central Texas ranks first with a 13.72 percent deposit market share and Wells Fargo Bank, National Association ranks second with a 12.70 percent deposit market share. Additionally, there are 14 credit unions based in the Waco area.

A community contact interview conducted during this evaluation identified the lack of short-term loans under \$1,000, and conversely, 30-year fixed rate loans. CNB set aside \$1.0 million for 30-year fixed rate mortgages to help provide for LMI borrowers through a program with Neighborhood Housing Services along with the City of Waco Down Payment Assistance Program. This program has been fully funded.

Discussions with bank management, a review of the PEs of competing banks, and other sources indicate an ongoing need for start-up business loans to entrepreneurs and financing of existing small businesses for working capital and expansion. It was noted that the lending activity of non-profit CD organizations such as NeighborWorks has reduced the overall demand for affordable housing loans for LMI individuals, as NeighborWorks is not subject to the stricter mortgage lending standards faced by area commercial banks. Alternatively, FHA now has more strenuous underwriting criteria and guidelines in place that make it more difficult for lower income borrowers to obtain financing to purchase homes.

#### **LIMITED-SCOPE ASSESSMENT AREAS:**

##### **Description of the Bell County Assessment Area**

CNB has designated a portion of Bell County as an AA. Bell County is a part of the Killeen/ Temple/ Fort Hood MSA and is located in Central Texas. Bell County is located along the IH-35 corridor, just south of McLennan County and the Waco MSA. CNB operates one full-service branch within Bell County in the city of Temple, Texas, which is located in a middle-income census tract (CT). CNB has selected most of Bell County as its AA, a total of 30 CTs, excluding the CTs in the western portion of the county near Killeen/ Fort Hood, which are mostly upper income CTs. According to 2010 Census Data, two of the CTs in the bank's AA are classified as low-income and six are classified moderate-income. Another twelve CTs are middle-income and nine CTs are upper-income. The AA meets the requirements of the regulation and does not arbitrarily exclude any LMI geographies. Information provided by CNB indicated that approximately 23 percent of the bank's loan volume and 22 percent of the deposit base is from this AA.

The following table summarizes the demographic data for the Bell County AA.

Demographic Information for the Bell County AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts (CT)/BNAs)	30	6.67	16.67	46.67	30.00	0
Population by Geography	139,811	4.31	12.63	50.99	32.07	0
Owner-Occupied Housing by Geography	31,090	2.53	7.29	51.41	38.77	0
Business by Geography	9,068	2.25	14.31	47.39	36.05	0
Family Distribution by Income Level	32,997	3.11	9.94	51.20	35.74	0
Households by Geography	46,532	3.32	11.28	51.60	33.81	0
Median Family Income		54,774	Median Housing Value		117,311	
FFIEC Adjusted Median Family Income for 2015		59,100	Unemployment Rate (March 2016 BLS)		4.4%	
Households Below Poverty Level		11.22%				

Source: 2010 US Census, 2015 FFIEC updated MFI, and Bureau of Labor Statistics

The local economy is vibrant and growing. The primary employer in the Temple area is Baylor Scott & White Hospital, a large healthcare institution with over 8,000 employees. Baylor Scott & White Hospital essentially drives the economy in the Temple area. Other active industries in the Temple area are advanced manufacturing, distribution and logistics, aviation and maintenance repair operations, and security and intelligence. The Killeen and Fort Hood economy is driven by one of the largest military installations in the country, which is located halfway between Austin and Waco.

As of March 31, 2016, the Bureau and Labor Statistics indicates the unemployment rate in Bell County of 4.4 percent remained slightly above the state average of 4.2 percent but below the national average of 5.0 percent. The 2010 Census Data reports that 11.22 percent of households in the AA live below poverty levels. With the weighted average median family income in the AA of \$54,774 about 33 percent of AA families have annual incomes that place them in the low- and moderate-income categories. The median age of the housing stock in low-income CTs is 45 years with a median housing value of \$64,302 and 40 years with a median housing value of \$79,341 for moderate-income CTs. Of the total 55,522 housing units in the AA, 31,090 or just over half are owner-occupied. Housing units in low-income CTs total only 1,991 units and account for about 4 percent of the total housing in the AA with 786 units or 40 percent being owner-occupied. In moderate-income CTs, there are a total 6,869 housing units with only about one-third being owner-occupied. LMI geographies, in total, account for just under one-quarter of the CTs in the AA based on the 2010 Census.

CNB operates within a very competitive banking environment made up of regional bank branches, community banks, and credit unions. There are a total 18 financial institutions operating in 70 offices within Bell County. Market share is determined by deposit size. According to the FDIC Market Share Report as of June 30, 2015, Bell County financial institutions showed deposits totaling \$3.3 billion. CNB's share of that

market is moderate at 4.63 percent. The Bell County market share is dominated by financial institutions such as Extraco Banks NA (19 percent market share with 7 branches), Compass Bank (15 percent market share with 5 branches), First National Bank Central Texas (12 percent market share with 14 branches), and First State Bank Central Texas (11 percent market share with 9 branches).

As part of assessing the performance of CNB, we reached out to a local community organization. The contact indicated affordable housing (rental housing for LMI families and affordable home purchase loans) remains a need in the area given the continued influx of job seekers and growing number of entry-level jobs since 2008. The contact stated local banks in the community could do better in collaborating with CD organizations to meet the identified needs.

**Description of the Travis County Assessment Area**

CNB has delineated a portion of Travis County as an AA. The 2010 U.S. Census designated the Austin-Round Rock MSA as consisting of Travis, Williamson, Hays, Caldwell, and Bastrop counties. CNB has selected a portion of Travis County, including a portion of the city of Austin, as part of their AA. Austin is the county seat of Travis County and located on the IH-35 corridor. The AA does not include any other counties in the Austin-Round Rock MSA. CNB first entered the Austin market in 2012 establishing a loan production office (LPO) in downtown Austin. The LPO transitioned into a full-service banking center in June 2013. According to the 2010 Census, this banking center is located in an upper-income CT.

CNB has selected CTs bound geographically by the western and northern border of Travis County, north side of Texas State Highway 71, and the west side of IH-35. Management noted there is significant competition from several banks around the Austin area. The AA meets the requirements of the regulation and does not arbitrarily exclude any LMI areas.

Reflected in the table below is the demographic information for the AA.

Demographic Information for Travis County AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts (CT)/BNAs)	110	10.00	15.45	23.64	50.00	0.91
Population by Geography	488,645	14.03	13.39	20.51	51.99	0
Owner-Occupied Housing by Geography	102,011	16.58	21.95	37.99	60.57	0
Business by Geography	74,001	5.35	10.93	17.51	66.17	0.05
Family Distribution by Income Level	107,016	10.38	10.90	19.54	59.17	0
Households by Geography	207,534	10.50	14.49	24.10	50.92	0
Median Family Income	71,602	Median Housing Value			292,243	
FFIEC Adjusted Median Family Income for 2015	76,800	Unemployment Rate (March 2016 BLS)			3.1%	
Households Below Poverty Level	13.02%					

Source: 2010 US Census, 2015 FFIEC updated MFI, and Bureau of Labor Statistics

The Travis County AA is made up of 110 CTs consisting of 11 low-income geographies (10 percent), 17 moderate-income geographies (15 percent), 26 middle-income geographies (24 percent), 55 upper-income geographies (50 percent), and one tract that is not income classified (0.97 percent). Per the 2015 Federal Financial Institutions Examination Council (FFIEC) Report, there are no middle-income CTs classified as either distressed or under-served. The AA meets requirements of the regulation and does not reflect illegal discrimination. The AA selected by CNB consists of whole CTs, and does not arbitrarily exclude LMI CTs. CNB's banking facility is located in an upper-income CT in downtown Austin.

The growth rate of Travis County has remained steady. According to the 2010 Census Data, the county population of 1,024,266 represents an increase of 25 percent from the 2000 census population of 820,927. Austin is a vibrant urban environment, home to many technology-based companies, government offices, and five colleges and universities including the University of Texas. Based on 2010 Census Data, CNB's AA has a population of approximately 489,000 with a median family income of \$71,602 and median housing value of \$292,243. The 2010 Census Data reports that 13.02 percent of households in the AA live below poverty levels. The median age of the housing stock in low-income CTs is 31 years with a median housing value of \$140,955 and 32 years with a median housing value of \$190,965 for moderate-income CTs. About 33 percent of AA families have annual incomes that place them in the LMI categories. There are a total of 222,098 housing units in the AA, and of the 102,011 or 45 percent that are owner-occupied, approximately 4,000 or 17 percent are in low-income CTs and about 7,000 or 22 percent in moderate-income CTs. LMI geographies, in total, account for about one-quarter of the CTs in the AA based on the 2010 Census Data.

Austin has a diverse economy with a significant presence of small businesses totaling 42,000. Numerous incubators, accelerators, and municipal-funded small business development programs support small businesses. Austin has several major technology companies including Dell, AMD, Intel, 3M, IBM, Samsung, and National Instruments. The city of Austin is also known for its world-class music and film events including SXSW, Austin City Limits, and the Formula 1 Grand Prix. The three largest employers in Austin include Austin ISD, City of Austin, and Dell Incorporated. Unemployment remains low at 3.1 percent, which is an indicator of the strong Austin economy. A community contact interview conducted during our CRA evaluation identified that most LMI borrowers in the area do not qualify for standard mortgage lending. Some organizations are beginning to work on long-term affordability options for LMI borrowers, but there is no official plan in the pipeline. Land values in Austin are higher than most areas resulting in higher taxes that many LMI individuals cannot afford. This makes affordable housing difficult. The eastern side of IH-35 in Travis County contains a higher concentration of LMI geographies, which are in significant need of development but are not within the bank's AA.

In Travis County, there are 50 financial institutions operating in 277 offices. Competition within the AA is highly competitive. Offices of Wells Fargo, Bank of America, and JPMorgan/Chase represent about 60 percent of the market share (\$16.2 billion of \$27.4

billion in total deposits) in Travis County. CNB considers three specific banks, Horizon Bank SSB, American Bank of Commerce (ABC Bank), and Regions Bank (R Bank), as primary competitors within the AA with similar products. All three of these financial institutions have market shares of less than 2 percent in Travis County as of June 30, 2015. CNB's lone branch in downtown Austin with total deposits of only \$22 million has a market share of less than one-tenth of one percent (0.08 percent).

## Conclusions with Respect to Performance Tests

### LENDING TEST

The Lending Test analysis that follows evaluates CNB's lending activity as described earlier in the scope section. The factors considered are as follows: (1) Loan-to-Deposit Ratio; (2) Lending in the AA; (3) Lending to Borrowers of Different Income Levels; (4) Geographic Distribution of Loans; and (5) Response to CRA Complaints.

Overall, CNB's performance under the Lending Test is **Satisfactory**. The review focused on residential real estate and commercial (business) lending. CNB's quarterly loan-to-deposit ratio during the evaluation period is reasonable. Lending to borrowers of different income levels and businesses of different sizes reflects reasonable penetration. The geographic distribution of loans reflects reasonable dispersion. Because the bank or the OCC has not received any written CRA-related complaints during the evaluation period, the Response to CRA Complaints criterion are not applicable to this lending test.

In reaching our overall conclusion, primary consideration was given to performance in the McLennan County AA in which the bank has two branch offices and where a substantial majority of its deposit and loan activities occur.

### Loan-to-Deposit Ratio

The bank's level of lending is reasonable considering the bank's size, financial capacity, and performance context. This determination is based on the quarterly average loan-to-deposit (LTD) ratios during the evaluation period, from September 2012 through December 2015. During the evaluation period, CNB's LTD ratio ranged from a low of 75.58 percent to a high of 85.38 percent with an average of 81.03 percent. The loan-to-deposit average ratio for peer banks for the same period ranged from 57.17 percent to 60.07 percent.

Management considers the banks reflected in the table below to be similarly situated institutions (SSIs). All offer similar loan and deposit products and branch locations in the AAs. There is no intended or implied ranking.

Loan-to-Deposit Ratios			
Financial Institutions	County	Total Assets (in 000's) (As of 12/31/2015)	Average Loan-to- Deposit Ratio
Central National Bank	McLennan	\$789,560	81.03%
First National Bank of Central TX	McLennan	\$779,671	76.20%
Extraco Banks, NA	Bell	\$1,374,971	74.67%
First State Bank Central Texas	Travis	\$1,392,074	52.01%
American Bank, NA	McLennan	\$424,240	63.77%
Community Bank and Trust	McLennan	\$419,722	76.41%

Source: Institution Reports of Condition from July 1, 2012 to December 31, 2015

### Lending in Assessment Area

A majority of residential real estate and business loans originated during the evaluation period was inside the AAs. As depicted in Table 1 below, the bank originated 85.83 percent of its loans during the evaluation period inside the AA. Of the number of business loans originated or purchased, 83.33 percent was inside the AA.

Table 1 - Lending in AAs McLennan, Bell, and Travis Counties										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	525	85.92	86	14.08	611	90,688	78.28	25,159	21.72	115,847
Home Improvement	67	90.54	7	9.46	74	4,402	90.48	463	9.52	4,865
Refinance	118	84.29	22	15.71	140	19,220	72.14	7,421	27.86	26,641
Business Loans	65	83.33	13	16.67	78	28,575	80.54	6,906	19.46	35,481
Totals	775	85.83	128	14.17	903	142,885	78.15	39,949	21.85	182,834

Source: Data reported under HMDA; Business Loan Sample

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

Overall, CNB's lending activities show a reasonable penetration among borrowers of different income levels and businesses of different sizes given the performance context. This conclusion is based on an analysis of sampled business loans (78) and residential real estate loans (825) originated in 2014 and 2015. For residential real estate loans, we compared the income distribution of the bank's borrowers to the income distribution of individuals and families within the AAs, using the FFIEC median family income levels. For business loans, we compared the bank's distribution of lending to small businesses in relation to small businesses within the AAs. Small businesses are businesses with gross annual revenues of \$1 million or less.

**Full-Scope Assessment Area Review - McLennan County****Residential Real Estate Loans**

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in McLennan County AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	22.12	4.15	17.33	13.28	19.47	11.62	41.08	70.95
Home Improvement	22.12	0.00	17.33	6.38	19.47	14.89	41.08	78.72
Refinance	22.12	1.54	17.33	9.23	19.47	18.46	41.08	70.77

Source: Data reported under HMDA; 2010 Census Data

As shown in Table 2, in each loan category, CNB's residential real estate lending to LMI borrowers lags the percentage of families in those income levels. Although lending performance is below demographic comparators, CNB's residential real estate lending reflects reasonable penetration when considering performance context factors such as above average poverty levels that limit home affordability. CNB faces increased competition from larger institutions that are more accessible to LMI areas and offer special financing programs targeted to LMI borrowers. In addition, the community contact indicated that most local banks do not offer traditional 30-year home purchase loans, which makes it difficult for LMI families to afford mortgages. Additionally, a reasonable portion of the residents in the AA are college students whose income is significantly below the median income. Consequently, many LMI borrowers in the AA cannot afford homes or struggle to meet current underwriting requirements.

**Business Loans**

<b>Table 2A - Borrower Distribution of Loans to Businesses in McLennan County AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	77.87	4.52	17.61	100%
% of Bank Loans in AA by #	46.15	42.31	11.54	100%
% of Bank Loans in AA by \$	78.08	20.13	1.79	100%

Source: Business Loan Sample

As reflected in Table 2A above, the borrower distribution of loans to businesses in the McLennan County AA reflects reasonable penetration among businesses of different sizes. Within the business loan sample, consisting of loans originated in 2014 and 2015, small business loans represent 46 percent by number and 78 percent by dollar volume of the total. Small businesses represent 78 percent of businesses in the AA. In the absence of revenue data in 11.5 percent of our business loan sample, we focused on the distribution of loans by dollar amount. Our loan sample showed that 69 percent

of the business loans were in the amount of \$200 thousand or less, thus supporting a reasonable distribution of loans to small businesses.

### **Limited-Scope Assessment Area Review - Bell County and Travis County**

Based on our limited-scope review, the bank's lending performance to borrowers of different income levels and businesses of different sizes in the Bell County and Travis County AAs reflects poor penetration. Less weight was placed on limited scope AA because of CNB's limited number of offices in the AAs (one in each) and the low volume of loans and deposits in these AAs compared to the McLennan County AA.

CNB made no residential real estate loans (purchase, home improvement, or refinance) to low-income families in the Bell County AA, and no residential real estate lending to low-, moderate- or middle-income families in the Travis County AA during the evaluation period. In the Bell County AA, CNB made 7 percent of its home purchase loans and 8 percent of home improvement loans to moderate-income families. Overall, LMI families represent 33 percent of all families in both the Bell and Travis County AAs. Thus, this level of lending reflects poor penetration even after performance context factors are considered.

CNB's business lending performance reflects poor penetration in the Bell County AA and reasonable penetration in the Travis County AA. In the Bell County AA, CNB made 48 percent of sampled loans by number and 34 percent by dollar volume to small businesses compared to the AA as a whole where small businesses comprise 79 percent of total businesses. In the Travis County AA, CNB made 80 percent of sampled loans by number to small businesses compared to the AA as a whole where small businesses comprise 76 percent of total businesses.

### **Geographic Distribution of Loans**

Overall, CNB lending performance reflects reasonable geographic dispersion of residential and business loans within its AAs. More weight was given to performance in McLennan County because of the concentration of loans and deposits in this AA. Geographic dispersion of home purchase loans in the McLennan County AA reflects an excellent dispersion throughout LMI CTs, exceeding comparative data in LMI geographies. CNB's geographic dispersion of business loans in the McLennan County AA reflects reasonable dispersion.

**Full-Scope Assessment Area Review - McLennan County**

**Residential Real Estate Loans**

Census Tract Income Level	Low		Moderate		Middle		Upper	
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	5.49	6.07	14.97	16.29	30.03	29.71	49.49	47.92
Home Improvement	5.49	3.77	14.97	11.32	30.03	37.74	49.49	47.17
Refinance	5.49	2.60	14.97	20.78	30.03	28.57	49.49	48.05

Source: U.S. Census Data; HMDA Loan Data

CNB’s geographic dispersion of home purchase loans in the McLennan County AA reflects an excellent dispersion throughout LMI CTs. As reflected in Table 3, CNB’s home purchase loans in LMI tracts exceeds the percentage of owner-occupied housing units in LMI CTs for the overall AA. CNB’s geographic dispersion of home improvement and refinance loans reflects reasonable dispersion. As reflected in Table 3, CNB’s home improvement and refinance lending is below but near demographic comparators for LMI CTs with the exception of refinance loans in moderate-income CTs where CNB’s lending compares favorably.

**Business Loans**

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Businesses	4.99	3.85	20.57	26.92	30.96	7.69	42.89	61.54

Source: Commercial Loan Sample and Dunn and Bradstreet Data

CNB’s geographic dispersion of business loans in the McLennan County AA reflects reasonable dispersion. Geographic dispersion of business loans in the McLennan County AA is slightly below comparative demographic data for low-income CTs and above comparative demographic data for moderate-income CTs.

**Limited-Scope AA Review - Bell County and Travis County**

Overall, the geographic dispersion of residential loans reflects reasonable penetration while the dispersion of business loans reflects poor dispersion in limited scope AAs. Less weight is placed on the limited scope AAs given the much lower volume of loans and deposits within these AAs compared to the McLennan County AA. Furthermore, there are limited lending opportunities in the LMI CTs of these AAs. The percentage of owner-occupied housing units in LMI CTs of these AAs are roughly half that of the McLennan County AA. Similarly, the volume of businesses in LMI CTs of these AAs are lower than the McLennan County AA.

In the Bell County AA, the geographic dispersion of residential loans throughout LMI CTs reflects reasonable penetration. The volume of residential real estate lending in moderate-income CTs generally exceeds the percentage of owner-occupied units in those CTs. The volume of residential real estate lending in low-income CTs modestly lags the very limited volume (2.5 percent) of owner-occupied units in those CTs. In the Travis County AA, the geographic dispersion of residential loans throughout LMI CTs reflects poor penetration as no loans were made in LMI CTs.

In the Bell and Travis County AAs, the geographic dispersion of business loans throughout LMI CTs reflects poor penetration. None of the sampled business loans were made to businesses located in LMI CTs in either AA.

**Responses to Complaints**

The bank and the OCC did not receive any complaints regarding CRA performance during the evaluation period.

**COMMUNITY DEVELOPMENT TEST**

CNB's overall responsiveness to CD needs of its AAs through CD lending, investments, and services is excellent. The bank centers its CD efforts primarily in qualified lending and services. As such, the primary emphasis for this test was CD loans and CD services. We gave more weight to CNB's CD performance in the McLennan County AA, as 74 percent of the bank's deposits are in this AA.

The bank's performance relative to the Bell County AA is consistent with the results of the full-scope review, but the performance relative to Travis County AA is inconsistent with McLennan County AA. Our conclusion is based on the bank's level of activity and performance context.

The evaluation period started at the date of the last CRA evaluation period (June 25, 2012) and goes to March 31, 2016.

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

The level of CD lending reflects excellent responsiveness to CD needs. When looking at all AAs, CNB originated or renewed 42 CD loans totaling \$8.1 million, representing 12.4 percent of tier 1 capital.

### **Full-Scope Assessment Area**

CNB originated or renewed 32 CD loans in the McLennan County AA during the evaluation period totaling approximately \$5.1 million, or 7.8 percent of tier 1 capital. There are 19 loans totaling \$2.4 million that provide affordable housing for LMI individuals and families. The AA has a need for affordable housing for LMI individuals and families that the bank is helping fill. Additionally, there are 12 loans totaling \$2.6 million, which help with the revitalization and stabilization of LMI geographies. Also, a \$99,954 loan provides daycare services for LMI individuals. Finally, the bank collaborated with Neighborhood Housing Services along with the City of Waco Down Payment Assistance Program to advance a total of \$714,053 in additional loans to 15 families living in low-income CTs. These loans are 30-year fixed rate loans, which is a significant need in the community for LMI individuals and families according to our community contacts in this area. The bank typically does not provide loans with fix rates beyond a five-year term.

### **Limited-Scope Assessment Areas**

The level of CD lending in the Bell County AA is consistent with performance in the full scope AA. CNB originated eight loans totaling \$2.7 million to provide affordable housing for LMI individuals and families in the Bell County AA. This level of CD lending represents 4.1 percent of tier 1 capital. Additionally, CNB advanced \$361,182 to aid in the revitalization and stabilization of the Bell County AA. The level of CD lending is nominal in CNB's newest AA, Travis County AA. Consideration was given to the performance context, the limited number of offices in the AAs, and the low volume of lending and deposit activity. Fewer opportunities were available due to the higher income borrower and geographic levels of Travis County.

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

The overall level of qualified investments and donations reflects adequate responsiveness to CD needs. The bank's total CD investment for the evaluation period totaled \$1,049,102 and represented 1.61 percent of tier 1 capital.

### **Full-Scope Assessment Area**

The level of qualified investments in the McLennan County AA reflects adequate responsiveness to CD needs of the AA. During the evaluation period, CNB made qualified investments totaling \$510,628. Of this total, \$236,962 is invested in the Access Capital Community Investment Fund, an equity fund under RBC Global Asset Management. The fund invests in geographic-specific debt securities supporting

affordable housing and CD services for LMI individuals and communities. Another \$85,000 of CD investments represents a pledge to the Greater Waco Chamber of Commerce, which is strategically investing in economic and CD initiatives to transform Waco and the Brazos riverfront area. These purchases demonstrate the bank's commitment to affordable housing community initiatives to support LMI individuals, families, and activities that revitalize or stabilize LMI income geographies.

CNB made 17 separate donations totaling \$158,666 to various CD organizations that provide needed services and help fund local programs for LMI individuals and underserved populations. One sizeable donation was for \$50,000 to the Greater Waco Chamber of Commerce in support of the LEAD Program for mentoring at-risk children from LMI schools and for annual scholarships to program graduates.

Equity investments and donations in the McLennan County AA represented 0.78 percent of tier 1 capital.

### **Limited-Scope Assessment Areas**

The level of qualified investments in the Bell County AA is consistent with results in the McLennan County AA. CNB made qualified investments in this AA during the evaluation period totaling \$528,474. Of this total, \$422,329 is the bank's investment in the Access Capital Community Investment Fund (discussed above) related to debt securities with underlying collateral in the Bell County AA. Additionally, CNB made three separate donations totaling \$106,145 to CD organizations in the Bell County AA, most notably donations of \$33,425 to Ralph Wilson Youth and \$69,970 to the United Way of Central Texas. Ralph Wilson Youth serves hundreds of LMI youth on a daily basis with after school activities. The United Way provides funds to local programs that serve LMI individuals and communities in the Bell County AA. CNB made two donations totaling \$10,000 during the evaluation period in the Travis County AA, \$7,000 to RBI Austin and \$3,000 to Creative Action. RBI Austin is an affiliate of Major League Baseball's Reviving Baseball in Inner Cities program (RBI) and serves youth ages 4 - 18 through free clinics, low-cost summer leagues, and year-round mentoring of LMI youth. Creative Action provides after school activities, using creative art to reach at-risk youth in the LMI areas of east Austin. Fewer CD opportunities were available due to the higher income borrower and geographic levels of the Travis County AA.

Equity investments and donations in the Limited Scope AA represented 0.83 percent of tier 1 capital.

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

The level of CD services reflects excellent responsiveness to CD needs. The bank provided a total of 23 qualified CD services from directors, officers, and employees across all AAs.

CNB does not have any branches located in LMI CTs, but the location in central Waco is convenient to some moderate-income areas. All of the branches offer ATMs. Various products are offered that include checking, savings, certificates of deposit, online bill pay, mobile deposit, wire transfer, P2P payments, consumer loans, commercial loans, real estate loans, and home equity loans.

### **Full Scope Assessment Area**

During the evaluation period, CNB exhibited excellent responsiveness to the CD service needs of the McLennan County AA. The bank continues to meet these needs through volunteer activities of its directors, officers, and employees with many on a continuing basis to the organizations. The McLennan County AA had 18 qualified services to the community. Bank staff served as directors and committee members, and provided strategic planning, fundraising, budgeting, and marketing expertise. Examples include:

- Serving on the YMCA of Central Texas Finance Committee and acting as the board chairman of the organization through its Doris Miller Branch located in an LMI area. They provide scholarships, tutor children, provide low cost childcare services for LMI individuals, and provide space for community gatherings.
- Serving as a board member of Waco Industrial Foundation, which is a driving force in economic development in Greater Waco.
- Serving as the treasurer and VP of finance of the Junior League of Waco.
- Serving as a board member for Habitat for Humanity.
- Serving as a board member to the McLennan County chapter of the United Way.
- Speaking at local schools located in LMI geographies about careers and personal finances/banking.

### **Limited-Scope Assessment Areas**

The level of CD services in Bell County is consistent with the results of the McLennan County AA. During the evaluation period, we noted volunteer activities of its directors, officers, and employees, many on a continuing basis to the organizations. Activities include serving as a board member for the Ralph Wilson Youth Club, the Temple Chamber of Commerce, the local chapter of United Way Foundation, and the Temple Economic Development Corporation. All support LMI individuals and LMI areas.

The level of CD services in Travis County is inconsistent with the results of the McLennan County AA. There was one qualified service from a bank employee who is a member of a group that supports the mission of Dell Children's Hospital through direct grant allocation. No other CD services were noted in this area.

## **Responsiveness to Community Development Needs**

### **McLennan County Assessment Area**

CNB demonstrated excellent responsiveness to meeting the CD needs of the community. We placed the primary emphasis for the McLennan County AA on CD loans and CD services.

### **Limited-Scope Assessment Areas**

The level of CD responsiveness in the Bell County AA is consistent with the performance in the full-scope AA. The level of CD responsiveness in the Travis County AA is inconsistent with the performance in the full-scope AA. As previously indicated, fewer opportunities were available due to the higher income borrower and geographic levels of Travis County. Less weight is placed on limited scope AAs because of the reduced volume of deposits and loans in these AAs.

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

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

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