



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**August 18, 2003**

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

**First National Bank of McGregor  
Charter Number 4076**

**401 Main Street  
McGregor, TX 76657**

**Comptroller of the Currency  
ADC-Austin  
8310 Capital of Texas Highway North Suite 250  
Austin, TX 78731**

**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.**

## TABLE OF CONTENTS

<b>INSTITUTION'S CRA RATING .....</b>	<b>1</b>
<b>DESCRIPTION OF INSTITUTION.....</b>	<b>1</b>
<b>DESCRIPTION OF ASSESSMENT AREAS .....</b>	<b>2</b>
<b>CONCLUSIONS ABOUT PERFORMANCE CRITERIA.....</b>	<b>3</b>

## **INSTITUTION'S CRA RATING**

**This institution is rated “Satisfactory.”**

FNB McGregor’s (FNB) performance reflects an overall satisfactory level in meeting community credit needs within its assessment area (AA). This rating is based upon findings noted through analysis of the lending test performance factors relative to the “small bank” evaluation criteria. The following highlights the bank’s performance:

- FNB’s loan-to-deposit (LTD) ratio exceeds the standard for satisfactory performance. The bank’s LTD averaged 78% during the evaluation period, which significantly exceeded the local peer bank average of 35.7%.
- The bank’s level of lending within the AA demonstrates a satisfactory level of performance as 64% of the number and 50% of the dollar volume of the loans originated within the AA.
- Extensions of credit to borrowers of different incomes as well as to small businesses meet the standards for satisfactory performance. While the distribution of mortgage loans to low- and moderate-income (LMI) borrowers exceeded the standard for satisfactory performance, FNB’s level of lending to businesses with gross annual revenues below \$1-million met satisfactory standards.
- An absence of LMI census tracts (CT) within FNB’s AA would have rendered the results of a geographic test meaningless, and was therefore not performed.
- There have been no complaints with respect to FNB’s CRA performance since the 1999 CRA Performance Evaluation (PE).

## **DESCRIPTION OF INSTITUTION**

FNB is a \$60 million financial institution located on Main Street, in the downtown district. The city of McGregor is 15-miles southwest of Waco, Texas, and approximately 120-miles equidistant between the Dallas Metroplex and Austin.

In addition to the main office location, which has a drive-through facility, the bank maintains two automated teller machines (ATMs). FNB offers a range of traditional banking services, such as checking and savings accounts as well as a variety of loan products. Also offered is Internet banking, ATM and check cards, merchant card services, safe deposit boxes, official checks, and trust services. Twenty-four hour account access is offered through the ATM located at the bank and through the bank’s Internet banking product. The bank’s second ATM, located in a Crawford convenience store, is accessible between the hours of 6:00 am and 9:00 pm.

The institution’s primary focus is to promote economic development in its AA through its lending

programs. FNB’s market niche is residential real estate, small business, agricultural, and consumer loan products. The following table illustrates the distribution of the bank’s loan portfolio by dollar amount and percentage of total loans, as of June 30, 2003.

<b>Loan Type</b>	<b>Dollar Amount \$ (000)</b>	<b>% of Total Loans</b>
Real Estate Residential (1-4)	17,001	34.46
Real Estate Nonfarm Nonresidential	8,705	17.65
Consumer	7,789	15.79
Commercial and Industrial	6,862	13.91
Real Estate Construction	4,129	8.37
Agricultural Production	2,731	5.54
Real Estate Farmland	1,644	3.33
Other	470	0.95
<b>Total</b>	<b>\$49,331</b>	<b>100%</b>

\*Source: Statement of Condition and Income

Although the bank is a locally owned and managed financial institution, it retains affiliated relationships with other financial institutions. The bank is affiliated through common ownership with Oglesby State Bank, State National Bank of West and Ennis Bancshares, Inc, which controls Ennis State Bank. The bank also retains ties with Centrabank Corporation, which controls Central National Bank in Woodway, Texas.

**DESCRIPTION OF ASSESSMENT AREA**

FNB’s AA includes five CTs, four of which are located in the southwest portion of McLennan County and one in the eastern portion of Coryell County, Texas. The AA includes the communities of McGregor, Moody, Crawford, and Oglesby. The entire population of this area totals 22,507. Of the 6,478 families located within the AA, 14% are designated as low-income families and 18% as moderate income. The remaining AA is comprised of 23% middle-income and 45% upper-income families. The local economy is stable, with approximately half of its employed residents working locally and the other half commuting to either Gatesville or Waco. Major employers in the AA include The Trane Company, Smead Manufacturing, Westview Manor Nursing Home, and the McGregor ISD.

Although FNB’s AA does not encompass the high-growth communities of Hewitt and Woodway, the bank has benefited, nonetheless, from its proximity to those areas. As Waco residents move out of the city into the suburbs, demand for both mortgage and commercial loans within those communities has increased. The effects of meeting this loan demand was reflected in the both the LTD and lending in the AA tests performed during this analysis. Refer to the individual tests for further detail.

Specific demographic data for the bank's AA is listed detailed below.

<b>Demographic and Economic Characteristics of AA</b>	
<b><i>Population</i></b>	
Number of Families	6,478
Number of Households	8,048
<b><i>Geographies</i></b>	
Number of Census Tracts	5
% Low-Income Census Tracts	0
% Moderate-Income Census Tracts	0
% Middle-Income Census Tracts	60%
% Upper-Income Census Tracts	40%
<b><i>Median Family Income (MFI)</i></b>	
1990 MFI for AA	\$31,452
2002 HUD-Adjusted MFI	\$45,000
<b><i>Economic Indicators</i></b>	
Unemployment Rate	2.0%
2002 Median Housing Value	\$45,709
% of Households Below Poverty Level	12%

FNB's AA is competitive, with primary competition stemming from Extraco Banks, N.A., and Rocket Federal Credit Union as well as from Waco financial institutions. In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted a local politician. The contact could not identify any particular credit needs within the AA that were not being met.

A review of FNB's lending practices revealed no evidence of illegal discrimination. The AA meets the requirements of the regulation and does not arbitrarily exclude LMI geographies. Based on its financial condition, resources, the local economy, product offerings, and competition, FNB has the ability to meet the various credit needs within its community. No legal impediments or other factors hinder the bank's ability to provide credit within its AA. FNB received a "Satisfactory" rating at its previous CRA examination conducted February 1999. Since the prior evaluation, there have been no complaints relating to the bank's CRA performance.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

Management has been successful in meeting the credit needs of its AA, including LMI individuals and small businesses, consistent with its resources and capabilities. Our findings were based on an analysis of the bank's lending with respect to mortgage and commercial loan originations. As these product lines represent approximately 66% of the bank's loan portfolio by dollar volume, our analysis was focused on the bank's lending performance with respect to those products.

## Loan-to-Deposit Ratio

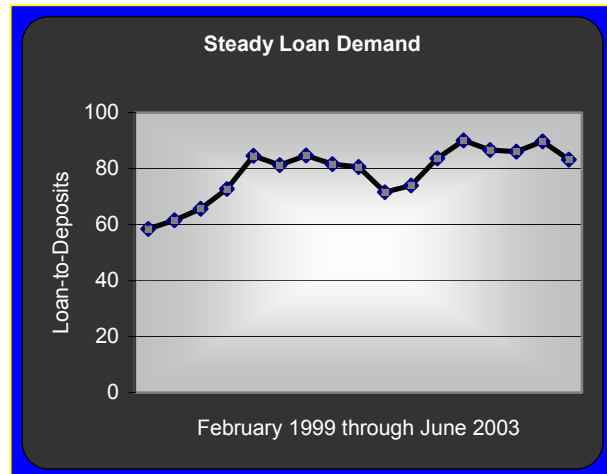
FNB's LTD ratio is very good, given its asset size, financial condition, and lending opportunities. Since the last CRA examination, the LTD ratio has increased steadily from 58% at June 30, 1999 to 83% at June 30, 2003. FNB's average LTD ratio over the past 17 quarters was 78%, significantly higher than the average 35% LTD ratio of four similarly situated banks headquartered in neighboring areas. The asset size and LTD ratio for FNB and its competing banks are listed below.

Institution	Assets As Of June 30, 2003	Average LTD Ratio %
FNB Moody	36,004	61.78
Fidelity Bank of Texas – Waco *	53,160	37.96
State NB – West	47,315	29.38
West Bank & Trust – West	53,290	13.48
<b>FNB – McGregor</b>	<b>60,229</b>	<b>78.31</b>

\* Assets and LTD ratio are as of March 31, 2003, the most recent data available for this bank.

The region is currently experiencing a migration of Waco residents into the neighboring suburbs of Hewitt and Woodway. FNB's proximity to these high-growth communities has sharply increased lending opportunities for FNB. This phenomenon is reflected in the steady rise in the bank's level of lending, which is reflected in the adjacent chart.

FNB's lending reached a peak of 90% of its deposit base in June 2002. A subsequent shift in bank strategy and a corresponding shift in target ratios have lowered the LTD ratio. As of June 30, 2003, the LTD ratio stood at 83%.



## Lending in Assessment Area

A majority of the bank's loans are made within its AA. In order to assess performance for this criteria, we reviewed a sample of 20 commercial loans made between 1999 and 2003, and all mortgage-related loans originated since the prior examination that were reported on the Home Mortgage Disclosure Act (HMDA) Loan Application Register (LAR). Accuracy of the reported information was verified through a random sampling prior to use in the evaluation.

Our analysis determined that 60% of the number and 47% of the dollar amount of single-family residential mortgages were made within the AA. While 66% and 72% of the number of refinancing and home improvement loans were originated within the AA, the dollar amount was slightly lower at 59% and 65%, respectively. We further determined that 50% of the number and 24% of the dollar amount of commercial loans were originated within the AA. The sharp increase in demand for both residential real estate mortgages and small business loans from high-growth neighboring communities, which are adjacent to FNB's AA, has negatively impacted the volume of originations from within the AA. Also adversely affecting the level of lending within the AA is FNB's practice of working with its affiliated banks through the purchase of commercial loan participations.

<b>TOTAL LOANS REVIEWED</b>								
	<b><i>In Assessment Area</i></b>				<b><i>Out Of Assessment Area</i></b>			
<b><i>Loan Type</i></b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>
Home Purchase	143	60.1	5,417	47.2	95	39.9	6,057	52.8
Refinancing	73	66.4	4,827	59.4	37	33.6	3,306	40.6
Home Improvement	70	72.2	1,646	65.2	27	27.8	880	34.8
Commercial	10	50	705	23.6	10	50	2,285	76.4
<b><i>Total Reviewed</i></b>	<b>296</b>	<b>63.7</b>	<b>12,595</b>	<b>50.1</b>	<b>169</b>	<b>36.3</b>	<b>12,528</b>	<b>49.9</b>

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

Our analysis determined that FNB lends to all applicants, regardless of their income category. While FNB's loan portfolio reflects an excellent distribution of mortgage loans to individuals of various income levels, the level of lending to businesses of different sizes within the AA meets the standard for satisfactory performance. In order to assess the bank's performance, we used HMDA information relative to mortgage-related loans originated between 1999 and 2003 and a sample of 20 commercial loans originated over the same time period.

According to census demographic information, of this area, approximately 14% are low- and 18% are moderate-income families. FNB's lending performance to those income groups exceeds the standard for satisfactory performance. The following table reflects the bank's lending performance in its AA.

<b>RESIDENTIAL REAL ESTATE</b>								
<b><i>Borrower Income Level</i></b>	<b><i>Low</i></b>		<b><i>Moderate</i></b>		<b><i>Middle</i></b>		<b><i>Upper</i></b>	
<b><i>% of AA Families</i></b>	14.2%		17.7%		22.7%		45.4%	
	<b>% of Number</b>	<b>% of Amount</b>	<b>% of Number</b>	<b>% of Amount</b>	<b>% of Number</b>	<b>% of Amount</b>	<b>% of Number</b>	<b>% of Amount</b>
<b><i>Total</i></b>	<b>15.4</b>	<b>6.9</b>	<b>24.5</b>	<b>14.9</b>	<b>23.8</b>	<b>21.0</b>	<b>36.3</b>	<b>57.2</b>

FNB originates a satisfactory number of commercial-related loans, a number of which have been to “small businesses with revenues less than \$1 million.” Management continues to focus on providing loans that will enhance the local economy. The following chart reflects our analysis of 20 commercial-related loans originated during the prior three-year period.

<b>BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES</b>		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	94.3%	5.7%
% of Bank Loans in AA #	80.0	20.0
% of Bank Loans in AA \$	71.8	28.2

### **Geographic Distribution of Loans**

As previously mentioned when describing the AA, all five CTs are either middle-or upper-income areas. With an absence of LMI geographies, an analysis of loan distribution by geographic area would not provide a meaningful analysis.

### **Responses to Complaints**

No CRA-related or unresolved consumer complaints have been identified since our prior examination.

### **Fair Lending Review**

An analysis of four years’ public comments and consumer complaint information was performed according to the OCC’s risk-based fair lending approach. Based on its analysis of information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in February 1999.