



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

September 29, 2008

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

American Bank, N.A.  
Charter Number: 17319

200 West State Highway 6  
Waco, Texas 76712

Office of the Comptroller of the Currency  
San Antonio – North Field Office  
10001 Reunion Place, Suite 250  
San Antonio, Texas 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 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.**

- American Bank National Association (AB) has demonstrated lending performance that is satisfactory given its size, financial condition, and the known credit needs in its assessment area (AA).
- AB's loan-to-deposit (LTD) ratio is reasonable and has averaged 74% for this evaluation period.
- A majority of AB's loans are within its AA. Approximately 82% of the number of loans were to borrowers within the AA.
- AB has demonstrated a reasonable distribution of lending to individuals of varying incomes and businesses of different sizes, including low- and moderate-income (LMI) populations.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.
- AB's community development performance demonstrates adequate responsiveness to the community development needs of its AA.
- There have been no complaints with respect to AB's performance under the Community Reinvestment Act (CRA).

## **Scope of Examination**

We evaluated AB's CRA performance under the Intermediate Small Bank examination procedures, which include a lending test and a community development test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The current review focused on commercial real estate, commercial, and construction/development loans from January 1, 2006, through June 30, 2008. Our review also focused on residential real estate for the Home Mortgage Disclosure Act of 1975 (HMDA) for reportable years 2005, 2006, and 2007. A data integrity review of the HMDA was conducted during this onsite examination to confirm the reliability of the HMDA Loan Application Register (LAR) data. We focused our review on these primary loan products because they represent over 88% of the total loan portfolio as of June 30, 2008. We also performed a community development test, reviewing community development loans, services, and investments since the last CRA examination through June 30, 2008. The test evaluates the bank's responsiveness to community development needs in its AA based on the information above.

## **Description of Institution**

AB is a community bank headquartered in Waco, Texas. As of June 30, 2008, AB had total assets of \$301 million and Tier 1 capital of \$31 million. AB is wholly owned by American National Bancshares, a one-bank holding company with consolidated assets of \$31 million. In addition to the main office, AB has one additional full-service bank office and five automated teller machines (ATMs) located in the AA.

No branches have been opened or closed since the last CRA examination nor have there been any significant changes to AB's corporate structure, including merger or acquisition activities.

The bank offers a full range of deposit and loan products and services. AB's loan portfolio is composed primarily of residential and commercial-related loans. As of June 30, 2008, net loans represent 67% of the bank's total assets. Deposit products and services include a no-cost basic checking account. All ATMs offer 24-hour self-service, and the Tele-Bank system gives customers around-the-clock access to most banking functions. Also, AB's website provides yet another option for customers to access account information. AB's mortgage lending department also assists customers with the loan application process on long-term mortgage loans that are underwritten by other financial institutions. These residential mortgage loans are not reflected in the data below, nor are they HMDA-reportable.

As of June 30, 2008, AB reported net loans of \$201 million and had a net loans to total assets ratio of 66%. The loan portfolio composition is as follows:

| <b>Table 1</b>                                  |                |             |
|---|----------------|-------------|
| <b>LOAN PORTFOLIO COMPOSITION</b>               |                |             |
| <b>Loan Category</b>                            | <b>\$000s</b>  | <b>%</b>    |
| Residential Real Estate Loans                   | 37,323         | 18.4%       |
| Commercial Loans                                | 39,258         | 19.4%       |
| Commercial Real Estate Loans                    | 73,900         | 36.4%       |
| Construction & Land Development Loans           | 28,720         | 14.2%       |
| Agricultural Loans                              | 2,930          | 1.5%        |
| Consumer Loans                                  | 9,743          | 4.8%        |
| Obligations of State and Political Subdivisions | 2,253          | 1.1%        |
| Farmland Loans                                  | 5,382          | 2.7%        |
| Other Loans                                     | 3,154          | 1.6%        |
| <b>Total</b>                                    | <b>202,663</b> | <b>100%</b> |

*Source: Institution Consolidated Reports of Condition as of June 30, 2008*

AB faces strong competition from area banks, savings and loans, and investment brokerage firms. Based on its financial condition, the local economy, product offerings, competition, and prior performance, AB has the ability to meet the credit needs in its community. No legal impediments or other factors hinder the bank's ability to provide credit in its AA. AB received a "Satisfactory" rating at its previous CRA examination, conducted as of December 31, 2003.

## Description of Assessment Area

The bank's AA includes all of McLennan County, which is located in the Waco metropolitan statistical area (MSA). Waco is located 90 miles south of Dallas/Fort Worth, 100 miles north of Austin and 180 miles northwest of Houston. This area is made up of 51 census tracts, which surround and include each banking office. Specific demographics and economic data for this AA is listed the table on the following page.

| <b>Table 2</b>  |          |
|---|----------|
| <b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF WACO MSA</b> |          |
| <b>Population</b>   |          |
| Number of Persons   | 213,517  |
| Number of Families  | 53,122   |
| Number of Households  | 78,926   |
| <b>Geographies</b>  |          |
| Number of Census Tracts                                     | 51       |
| % Low-Income Census Tracts                                  | 9.80%    |
| % Moderate-Income Census Tracts                             | 27.45%   |
| % Middle-Income Census Tracts                               | 31.37%   |
| % Upper-Income Census Tracts                                | 31.37%   |
| <b>Median Family Income (MFI)</b>                           |          |
| 2000 MFI for AA   | \$41,455 |
| 2002 HUD-Adjusted MFI                                       | \$50,400 |
| <b>Economic Indicators</b>                                  |          |
| Unemployment Rate   | 3.64%    |
| Weighted Avg. of Median Housing Value                       | \$62,261 |
| % of Owner-occupied Properties                              | 55.97%   |
| % of Households Below Poverty Level                         | 17.63%   |

*Source: 2000 U.S. Census Data*

According to year-end 2000 housing data as provided in the U.S. Census, there are 87,400 housing units in the AA. Of these housing units, 56% are owner occupied, 37 are renter occupied and 7% are vacant. The median year built for housing was 1970 with a median value of \$62,000. Based on current 2008 demographic information, the average value is about \$89,000.

Based on the 2000 Census data, the AA has a combined population of 213,000. Approximately 11% of the families in the AA are considered low-income. Moderate-income families approximate 25% of the population, while middle- and upper-income families comprise the remaining 64%. According to the Bureau of Labor Statistics, the unemployment rate for the Waco MSA for July of 2008 was 4.8%. According to the Texas Workforce Commission, 19% of McLennan County's labor market is educational and health services, 16% is government and 16% is trade, transportation and utilities. The top three major employers in McLennan County are McLennan County Independent School Districts, Baylor University, and the Providence Health Center.

## Conclusions with Respect to Performance Tests

### LENDING TEST

*The bank's performance under the lending test is rated Satisfactory.*

## **Loan-to-Deposit Ratio**

AB's LTD ratio meets the standard for satisfactory performance, given its asset size, financial condition, and lending opportunities available in the AA. Since the last CRA examination, the LTD ratio has fluctuated within the range of 63% to 85%. During this period, the ratio averaged 74%. This compares reasonably well to other AA banks with similar lending opportunities. AB ranks fifth out of six institutions in terms of highest LTD ratio, as noted in Table 5 below. However, without considering First National Bank of Central Texas or Texas first State Bank, the remaining four institutions have very similar LTDs, with only a 6% variance between AB and Independent Bank.

| <b>Table 3</b>                          |                                     |                            |
|---|-------------------------------------|----------------------------|
| <b>LOAN-TO-DEPOSIT RATIO COMPARISON</b> |                                     |                            |
| <b>Institution</b>                      | <b>Assets as of 6/30/08 (000's)</b> | <b>Average LTD Ratio %</b> |
| <i>American Bank, N.A.</i>              | <b>300,893</b>                      | <b>73.64</b>               |
| Central National Bank                   | 504,923                             | 79.07                      |
| First National Bank of Central Texas    | 379,076                             | 93.08                      |
| Texas First State Bank                  | 230,161                             | 59.34                      |
| Community Bank and Trust                | 376,655                             | 75.11                      |
| Independent Bank                        | 233,628                             | 79.64                      |

## **Lending in Assessment Area**

AB originates a majority of loans within its AA, with a total of 81% of the total sample of 153 loans originated within the AA. The bank made approximately 69% of the dollar volume of all loans sampled to borrowers located in the AA. The following Table 4 shows AB's record of lending in the AA.

| <b>Table 4</b>                    |              |              |                  |              |
|-----------------------------------|--------------|--------------|------------------|--------------|
| <b>LENDING IN ASSESSMENT AREA</b> |              |              |                  |              |
|                                   | <b>In AA</b> |              | <b>Out of AA</b> |              |
| <b>Loan Type</b>                  | #            | %            | #                | %            |
| Residential                       | 130          | 81%          | 31               | 19%          |
| Commercial                        | 23           | 85%          | 4                | 15%          |
| <b>Total In/Out Sample</b>        | <b>153</b>   | <b>81.4%</b> | <b>35</b>        | <b>18.6%</b> |

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

Based on our sample, AB's level of lending to borrowers of different incomes and businesses of different sizes is reasonable within the Waco MSA. Although residential real estate lending to LMI borrowers in its AA is well below area demographics, consideration of the bank's performance context led to an overall conclusion that AB meets the standard in residential real estate lending. The bank exceeds the performance standards in commercial lending. For evaluation under this criterion, small businesses are defined as businesses with less than \$1 million in annual revenue.

| <b>Borrower Income Level</b> | <b>Low</b>       |              | <b>Moderate</b>  |              | <b>Middle</b>    |              | <b>Upper</b>     |              |
|------------------------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
|                              | % of AA Families | % of # Loans | % of AA Families | % of # Loans | % of AA Families | % of # Loans | % of AA Families | % of # Loans |
| Home Purchase                | 20.68            | 2.04         | 17.54            | 10.20        | 21.36            | 6.12         | 40.42            | 78.57        |
| Home Improvement             | 20.68            | 0.00         | 17.54            | 13.33        | 21.36            | 13.33        | 40.42            | 73.33        |
| Refinancing                  | 20.68            | 0.00         | 17.54            | 11.11        | 21.36            | 5.56         | 40.42            | 83.33        |
| <b>TOTAL</b>                 | <b>20.68</b>     | <b>1.53</b>  | <b>17.54</b>     | <b>10.69</b> | <b>21.36</b>     | <b>6.87</b>  | <b>40.42</b>     | <b>78.63</b> |

Source: US Census Data; HMDA Data

As shown in Table 5 above, about 21% of AA families are low-income and 18% are moderate-income. Comparatively, AB originated less than 2% of its residential real estate loans to low-income borrowers and 11% to moderate-income borrowers. This data reveals poor penetration of mortgage lending to LMI families. However, the performance context bears consideration in this case. According to management, and supported with Waco residential sale price information, there are a limited number of homes available in the AA at selling prices that low-income families could qualify for. The bank does not offer conventional long-term fixed rate mortgage loans, and as such, would tend to reduce the likelihood of LMI individuals applying for a shorter term balloon loan with the bank. However, for customers seeking long-term fixed rate financing, AB's mortgage lending department offers assistance with the loan application process. Since these loans are ultimately underwritten by other financial institutions, they are not included in the AB's HMDA data. Our review of loans originated in 2007 under this program reflected a significant number of individuals that fell in the LMI category. In addition, AB's level of community development lending in particular was outstanding, with the majority of funds being used to help LMI families gain affordable housing options. Please refer to the Community Test Development section of this Performance Evaluation for details.

| <b>BORROWER DISTRIBUTION OF LOANS TO BUSINESSES – WACO MSA</b> |                    |                 |        |
|--|--------------------|-----------------|--------|
| Business Revenues  | $\leq \$1,000,000$ | $> \$1,000,000$ | N/A    |
| % of AA Businesses   | 65.38%             | 5.26%           | 29.35% |
| % of Bank Loans in AA #  | 70.37%             | 29.63%          | -      |
| % of Bank Loans in AA \$                                       | 69.21%             | 30.79%          | -      |

Source: US Census Data; Bank Records

As illustrated in Table 6 above, 65% of AA businesses reported annual revenues of \$1 million dollars or less. Comparatively, 70% of the number and 69% of the dollar amount of commercial loans sampled in the Waco MSA were made to businesses with annual revenues of \$1 million dollars or less. The bank's performance exceeds the standard and illustrates excellent performance in lending to small businesses.

## **Geographic Distribution of Loans**

The geographic distribution of the loan sample is satisfactory. We put more weight on the commercial lending performance since most of the loans made by the bank were commercial loans. We did not identify any conspicuous gaps in lending throughout the bank's AA.

### ***Home Loans***

The bank's geographic distribution of home loans in this AA reflects an excellent dispersion throughout census tracts of different income levels, including the moderate-income census tract. In particular, the percentage of home improvement loans in the low-income census tract and home refinance loans originated in the moderate-income census tract is excellent. While the level of home improvement loans originated in the moderate-income census tract is poor, this received less weight as only 11% of all home loans originated were identified as home improvement loans.

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

| <b>Table 7</b><br><b>GEOGRAPHIC DISTRIBUTION OF 1-4 FAMILY REAL ESTATE- WACO MSA</b> |                                   |                 |                                   |                 |                                   |                 |                                   |                 |
|--|-----------------------------------|-----------------|-----------------------------------|-----------------|-----------------------------------|-----------------|-----------------------------------|-----------------|
| <i>Census Tract<br/>Income Level</i>   | <i>Low</i>                        |                 | <i>Moderate</i>                   |                 | <i>Middle</i>                     |                 | <i>Upper</i>                      |                 |
|  | % of Owner<br>Occupied<br>Housing | % of #<br>Loans |
| Home Purchase  | 4.80                              | 4.08            | 18.68                             | 17.35           | 36.55                             | 36.73           | 39.97                             | 41.84           |
| Home Improvement   | 4.80                              | 13.33           | 18.68                             | 6.67            | 36.55                             | 20.00           | 39.97                             | 60.00           |
| Refinancing  | 4.80                              | 11.11           | 18.68                             | 33.33           | 36.55                             | 44.44           | 39.97                             | 11.11           |
| <b>TOTAL</b>   | <b>4.80</b>                       | <b>6.11</b>     | <b>18.68</b>                      | <b>18.32</b>    | <b>36.55</b>                      | <b>35.88</b>    | <b>39.97</b>                      | <b>39.69</b>    |

### ***Business Loans***

The bank's geographic distribution of business loans reflects reasonable dispersion throughout the census tracts of different income levels.

The following table details AB's performance as compared to the percentage of businesses in each census tract income level.

| <b>Table 8</b>   |                    |                 |                    |                 |                    |                 |                    |                 |
|--|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|
| <b>GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES – WACO MSA</b> |                    |                 |                    |                 |                    |                 |                    |                 |
| <i>Census Tract Income Level</i>                                 | <i>Low</i>         |                 | <i>Moderate</i>    |                 | <i>Middle</i>      |                 | <i>Upper</i>       |                 |
|  | % of AA Businesses | % of # of Loans | % of AA Businesses | % of # of Loans | % of AA Businesses | % of # of Loans | % of AA Businesses | % of # of Loans |
| All Commercial Loans   | 4.60               | 3.79            | 29.00              | 25.93           | 29.56              | 11.11           | 36.84              | 59.26           |

## Responses to Complaints

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

## COMMUNITY DEVELOPMENT TEST

*The bank's performance under the Community Development Test is Satisfactory.*

AB has demonstrated adequate responsiveness to the community development needs of its AA, considering its performance context and the needs and opportunities within the AA.

## Number and Amount of Community Development Loans

AB originated twelve community development loans in this AA since the last CRA examination, totaling almost \$8 million.

- \$889 thousand (3 separate loans) to rehabilitate downtown buildings and implement services for the benefit of McLennan County LMI families, including a family commissary offering free food and used household items, as well as immigration assistance.
- \$39 thousand (2 separate loans) to build houses in disadvantaged, low-income areas of Waco.
- \$225 thousand for interim construction on two houses in low-income sections of Waco.
- \$4.4 million (4 separate loans to 3 different companies) to acquire properties in low-income areas of Waco, refurbish the properties, and then rent to LMI populations in McLennan County.
- \$2.4 million (2 separate loans) to help provide funds to a company that helps LMI individuals in the Waco area make repairs to their homes, including provision of fair financing terms.

## Number and Amount of Qualified Investments

Since the last examination, AB made ten qualified investments totaling \$13 thousand to organizations that provide community services to LMI individuals in the Waco MSA. The investments were cash donations to various non-profit and community groups, and included funds to support meals for the needy, health care, abuse and homeless shelters, affordable housing, and other social assistance programs designed to serve LMI families and individuals. AB also made various donations directly to schools with largely LMI populations, totaling \$24 thousand over the review period.

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

AB has one branch and ATM in a moderate-income census tract. The bank offers a free basic checking account, and will waive the minimum deposit requirement on a case-by-case basis, or as part of account marketing activities at local schools and businesses. The bank also provides disclosures and other marketing efforts in Spanish to serve the Hispanic community of Waco. These efforts generally help to increase access to financial services for LMI individuals. With a poverty rate of nearly 18%, and 36% of households in the LMI categories, the provision of these services is considered favorably under the CRA.

The bank provided two examples of community development services to qualifying programs in its AA. An officer assisted a local school in a needy area of Waco serving on a scholarship committee that provides college funds to children from LMI families. In addition, bank employees presented general banking information and deposit account management tips to primarily LMI high school seniors.

## **Responsiveness to Community Development Needs**

AB's community development activities, as a whole, demonstrate adequate responsiveness to the needs and opportunities in this AA. We contacted two community organizations to determine the needs of the Waco MSA and make our assessment of AB's performance. Identified needs include outreach and teaching pertaining to financial expertise, and general knowledge of banking services targeted to LMI individuals. In the past, availability of LMI housing was more of a need, though this has changed over the past couple of years. One of the bank's community development services was designed to educate LMI students. AB consistently donates cash to area schools with a high percentage of LMI youths, is active in the community, and occasionally conducts marketing activities that seek to inform the community of the benefits that the bank offers.

## **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.