



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 20, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**American First National Bank
Charter Number 23521**

**9999 Bellaire Boulevard
Houston, TX 77036**

**Comptroller of the Currency
Assistant Deputy Comptroller - Houston
1301 McKinney Street, Suite 3410
Houston, TX 77010**

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.

American First National Bank (AFNB) is responsive to the credit needs of its community including small businesses and low- and moderate-income individuals. The following factors support this conclusion:

- Overall, the geographic distribution of business loans exceeds the standards for satisfactory performance. Lending in moderate-income census tracts exceeds the characteristics of the assessment area, and lending in low-income census tracts is reasonable.
- The loan-to-deposit ratio is satisfactory and has been consistently above the peer group average by a small percentage.
- The bank's lending to small businesses is reasonable.

DESCRIPTION OF INSTITUTION

AFNB is a \$193 million full service bank with its main office in southwest Houston, Texas. The main office known as the Bellaire Branch. Harwin is the newest and nearest branch, located a short distance north of the main office in an area with a high customer concentration. The Bellaire and Harwin branches are both in Harris County. A third branch, First Colony, is about fifteen miles southwest of the main office, in Missouri City, close to Sugar Land in Fort Bend County. A fourth branch is about 275 miles north of Houston in Richardson, Texas. Richardson is in both Collin County and Dallas County. Based on its financial condition, the bank is able to meet the credit needs of the community, primarily commercial real estate loans and commercial loans. The loan portfolio is approximately \$142 million, or a significant 74% of total assets. Loan portfolio composition as of September 30, 2003 was commercial real estate (68%), commercial (22%), construction and land development (5%), residential real estate (3%), and all other loans (2%). The business strategy is focused on commercial lending; however, officers actively solicit loans in all categories including consumer. The bank does not have any legal, financial, or other factors impeding its ability to help meet the credit needs in the assessment area. The bank is not a subsidiary of a holding company but is affiliated with Texas First National Bank. Lobby banking hours are the same at all locations. Hours are reasonable from 9:00 AM to 4:00 PM Monday through Thursday. Friday hours are extended until 5:30 PM. Saturday hours are from 9:00 AM until 1:00 PM. The Bellaire and Harwin locations have a Drive-In Bank with extended hours from 9:00 AM until 6:00 PM, Monday through Friday. The Drive-Ins are open the same hours as the lobby on Saturday. The bank has an automated teller machine at each location. AFNB offers traditional loan and deposit products and services. In addition, the bank offers a wide range of banking services in several languages including Cantonese, Chiuchounese, English, Hakah, Korean, Mandarin, Shanghainese, Spanish, Taiwanese, Vietnamese, Indonesian, and Malay. The bank received a satisfactory rating at the prior CRA examination dated October 12, 1999. For additional information, see the bank's Public File.

DESCRIPTION OF HARRIS COUNTY, FORT BEND COUNTY, COLLIN COUNTY, AND DALLAS COUNTY

AFNB has three assessment areas, and the assessment areas were expanded during the examination to more clearly reflect the bank's current lending. The main office on Bellaire Boulevard and the Harwin office have Harris County as their assessment area. The First Colony branch in Fort Bend County has a part of this county in which the branch can reasonably serve as its assessment area. Similarly, the branch in Richardson has a part of Collin County and a part of Dallas County that it can reasonably serve. In the future, the assessment areas will most likely be enlarged for Fort Bend, Collin, and Dallas Counties as the branches continue to grow. The bank's assessment areas are legal and do not arbitrarily exclude low- and moderate-income areas. Each county in the bank's assessment area is discussed separately.

Harris County

Harris County is the third largest county in the United States with a population of over 3.4 million residents, and it covers 1,788 square miles. Houston is the largest city in the county, the capital seat, and the fourth largest city in the United States. Houston is home to the Houston Livestock Show and Rodeo, the largest rodeo in the world attracting 1.8 million visitors per year. Houston also has the largest medical center in the world, the Texas Medical Center. Its economic impact is \$10 billion annually, 52 thousand people work in its facilities, and the center has 21 million square feet of space. Approximately 4.8 million patients are treated at the Texas Medical Center annually. Also, eighteen Fortune 500 companies and more than five thousand energy related firms are located in the city that is considered by many as the "Energy Capital" of the world. The Port of Houston is the nation's largest in international tonnage and second in total tonnage. Major employers include Continental Airlines, Administaff, Halliburton, Wal-Mart Stores, Exxon Mobil, Kroger Company, Memorial Hermann Healthcare System, and The University of Texas Medical Branch, all with more than 13 thousand employees.

There are 667 thousand owner-occupied single-family housing units and 599 thousand rental housing units. The median value of a single-family residence is \$101 thousand, and the median family income is \$59,100. The county has 62 low-income census tracts, 222 moderate-income census tracts, 179 middle-income census tracts, and 179 upper-income census tracts. Also, it has 7 census tracts without a designation. Harris County has a large number of financial institutions of all sizes offering a wide variety of products and services. Competition is intense. The unemployment rate for Harris County as of November 2003 was 6.4%, a slight increase from the 2002 annual rate of 6.1%.

Fort Bend County

Fort Bend is adjacent to southwest Harris County, and it is one of the most affluent and fastest growing areas in the Houston Metropolitan Statistical area. The assessment area has 170 thousand residents. Projections for 2020 predict a doubling of the population. The median family income is \$59,100. Sugar Land is the largest city, and it is so close to Houston that it could be considered a suburb. The assessment area is the part of the county that can be reasonably served.

AFNB's assessment area in Fort Bend includes the only low-income census tract, three moderate-income tracts (of a total of four), 5 middle-income tracts, and 17 upper-income tracts. It has 41 thousand owner occupied housing units and 14 thousand rental housing units. The single-family median home value is \$131 thousand. Over 37 planned communities are announced, under construction, or nearly complete with an average new home sales price of \$183 thousand. Many small and large financial institutions are in the county, and competition is intense. Major employers include Fort Bend Independent School District, Fluor Corporation, Lamar Independent School District, Unolocal Corporation, Schlumberger Company, Texas Department of Criminal Justice, and Fort Bend County. All of these employers have more than two thousand employees. The 5.5% unemployment rate as of November 2003 increased from the 2002 annual rate of 4.5%.

Collin County and Dallas County

AFNB's assessment area is a part of both counties that can be reasonably served, and it includes two low-income census tracts, 28 moderate-income tracts, 28 middle-income tracts, and 30 upper-income census tracts. A total of 442 thousand people live in the assessment area. It has approximately 82 thousand owner occupied housing units and 104 thousand rental units. The median housing value is \$132 thousand, and the updated median family income is \$65 thousand.

Collin County is north of Dallas, Texas and Dallas County. It has three major cities including Richardson, Plano, and McKinney. Collin County is the fifth fastest growing county in the United States. The bank's branch is in Richardson, and Richardson is in both Collin and Dallas County. Richardson has a 2000 census population of 92 thousand and covers 28 square miles. Approximately 600 high-tech companies dominate Richardson's business base. Most are located in an 11 square mile area named the Telecom Corridor. It has one of the highest concentrations of leading-edge telecommunications and technology-based companies in the world. The largest employers in the city are Nortel Networks, Richardson ISD, and Blue Cross & Blue Shield, all with more than 2 thousand employees. According to the North Central Texas Council of Government 2003 demographic report, the median household income is \$71,509 and the median home value is \$146 thousand, both exceeding the county medians and the medians for the assessment area. This demographic report also projects by the year 2010, the Telecom Corridor will add 40 thousand jobs and be the second largest employment center in the Dallas-Fort Worth Metroplex, second only to downtown Dallas. The city has a 4.7% unemployment rate as of November 2003 slightly below the 2002 rate of 5.6%. Competition among financial institutions in the city is intense.

Plano is between Richardson and McKinney and has more than 222 thousand people according to the 2000 U. S. Census. It is the 11th fastest growing city of more than 100 thousand population in the United States. The median household income is \$78,722, and the average home price in Plano is \$190,000, both exceeding the medians for the assessment area.

Although not part of the assessment area but fairly close, McKinney is the county seat of Collin County and is located in the northern part of the county. The three largest employers in McKinney are Raytheon, Collin County, and North Central Medical Center. The 5.2% unemployment rate for the entire county as of November 2003 is a decrease from the 2002 annual rate of 6.5%. However, the unemployment rate in the county seat of McKinney is much

higher at 8.9% in November 2003 than the rest of Collin County.

In Dallas County, the city of Dallas is the largest city as well as the county seat. There are a significant number of financial institutions in the county offering a wide variety of products and services, and competition is intense. The median value for a single-family residence is below the median for the bank's assessment area at \$93 thousand. The 6.9% unemployment rate as of November 2003 is a decrease from the 2002 annual rate of 7.9%. Several Fortune 500 firms including Texas Instruments, Kimberly-Clark, and Southwest Airlines are located in Dallas as well as major distribution centers for Frito-Lay and Wal-Mart. In addition, the operations center for JP Morgan Chase, Nokia, and Capital One are located in Dallas. Dallas County is a leader in regional transportation with a program providing from \$20 to \$30 million a year in funding.

During the examination, we spoke with a local Chamber of Commerce leader in Harris County. He viewed the greatest credit need throughout Houston as residential real estate loans. Although this is not a primary loan product of the bank, it is a product offered. The next two greatest loan needs were commercial real estate and commercial loans, AFNB's major loan products. Also, he spoke favorably of the performance of all financial institutions in the area in helping to meet the credit needs of the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our review focused on commercial real estate loans and commercial loans. Commercial real estate was \$98 million or 68% of the \$144 million loan portfolio at September 30, 2003. Also, commercial real estate was 28% or 200 loans of a total 714 loans. Commercial loans were the second largest product in dollars at \$30 million or 21% of the total loan portfolio. As a number of loans, commercial loans were 245 of a total 714 loans or 34% of the portfolio.

For loans to businesses of different sizes, we combined 2001 and 2002 loan originations for comparison to Dun and Bradstreet information. We compared our sample of 2001 and 2002 loan originations to the 1990 census tract income designations for geographic distribution and the 2000 census for year 2003 loan originations. Consumer loans were not sampled since this bank is primarily a commercial bank, and the consumer loan portfolio is only 2% of the dollar total of the portfolio. However, a management prepared analysis of consumer lending shows a reasonable level of lending to low- and moderate-income borrowers.

AFNB originated one qualified community development loan during the evaluation period. The loan was granted in the amount of \$17 thousand to a not-for-profit organization located in Fort Bend County providing community services specifically targeted to low- and moderate-income individuals. The organization provides food, clothing, and household items to the needy.

Loan-to-Deposit Ratio

The loan-to-deposit ratio (LTD) meets the standards for satisfactory performance and is above a peer group average. The quarterly average since the prior exam dated October 12, 1999 is 76.47%. The average of the last five quarters is 78.99%. A peer group average of 57 banks with less than \$200 million in assets at September 30, 2003 in Harris, Fort Bend, Collin, and Dallas County was 68.10%, and the last five quarters average was 72.69%.

Lending in Assessment Area

Lending in the assessment area is a majority in number (62%) and dollar amount (64%) of loan originations and meets the standards for satisfactory performance. Our analysis included 198 commercial real estate and commercial loans. Bellaire and Harwin are in Harris County. First Colony is in Fort Bend County, and Richardson is in Dallas and Collin County. Performance in each loan category is shown in the following table for the three assessment areas.

Table 1 – Combined Assessment Areas										
Office	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Bellaire & Harwin	63	82	14	18	77	22,736	89	2,954	11	25,690
First Colony	32	73	12	27	44	7,221	88	972	12	8,193
Richardson	27	35	50	65	77	11,397	37	19,688	63	31,085
Totals	122	62	76	38	198	41,354	64	23,614	36	64,968

Source: loan sample.

Richardson is AFNB's newest branch and has grown rapidly. Senior management anticipates expanding Richardson's assessment area based on a further analysis of its lending. To a lesser extent, possible assessment area expansion may be considered for Fort Bend County if the branch continues to originate more loans in ever widening areas. If expanded, senior management will ensure the assessment areas do not arbitrarily exclude low- and moderate-income areas.

Lending to Businesses of Different Sizes

Lending to businesses of different sizes is reasonable and meets the standard for satisfactory performance. Our sample included the 122 commercial real estate and commercial loans that were originated in the bank's three assessment areas. The following tables show the bank's lending to businesses of different sizes:

Table 2A - Borrower Distribution of Loans to Businesses in Harris County For the Bellaire and Harwin Branches (2001 and 2002)		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	90%	10%
% of Bank Loans in AA by #	66%	34%
% of Bank Loans in AA by \$	52%	48%

Source: Loan sample; Dun and Bradstreet data. *5% of AA businesses did not report revenue data.

Although below the characteristics of the assessment area, lending to small businesses in Harris County is reasonable. The percentage lending to small businesses increased during 2003 as shown in Table 2B:

Table 2B - Borrower Distribution of Loans to Businesses in Harris County For the Bellaire and Harwin Branches (2003)		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	91%	9%
% of Bank Loans in AA by #	68%	32%
% of Bank Loans in AA by \$	72%	28%

Source: Loan sample; Dun and Bradstreet data. *32% of AA businesses did not report revenue data.

Lending to small businesses is reasonable in 2003 as reflected in the table above although still somewhat below the characteristics of the assessment area. Next, information as to lending originations from the First Colony Branch is presented in Table 2C:

Table 2C – Borrower Distribution of Loans to Businesses in Fort Bend County For the First Colony Branch (2001 and 2002)		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	93%	7%
% of Bank Loans in AA by #	56%	44%
% of Bank Loans in AA by \$	67%	33%

Source: Loan sample; Dun and Bradstreet data. *7% of AA businesses did not report revenue data.

Although below the characteristics of the assessment area, lending to small businesses in Fort Bend County in 2001 and 2002 is reasonable. In addition, our analysis of loan originations showed that five loans were originated to one long time customer who had revenues in excess on \$1 million and affected the percentages. We found lending to small businesses increased during 2003 as shown in Table 2D below:

Table 2D - Borrower Distribution of Loans to Businesses in Fort Bend County For the First Colony Branch (2003)		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	93%	7%
% of Bank Loans in AA by #	93%	7%
% of Bank Loans in AA by \$	95%	5%

Source: Loan sample; Dun and Bradstreet data. *33% of AA businesses did not report revenue data.

Lending in 2003 was similar to the characteristics of the assessment area as reported by Dun and Bradstreet. Next, we analyzed loan originations for the branch in Richardson, Texas. The results of our analysis is shown in Table 2E below:

Table 2E - Borrower Distribution of Loans to Businesses in Collin and Dallas County For the Richardson Branch (2001 and 2002)		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	88%	12%
% of Bank Loans in AA by #	83%	17%
% of Bank Loans in AA by \$	71%	29%

Source: Loan sample; Dun and Bradstreet data. *5% of AA businesses did not report revenue data.

As shown in table 2E, the bank's lending is similar to the characteristics of the assessment area

as reported by Dun and Bradstreet. The final analysis of lending was for loan originations in 2003 from the Richardson branch as shown in Table 2F below:

Table 2F - Borrower Distribution of Loans to Businesses in Collin and Dallas County For the Richardson Branch (2003)		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	89%	11%
% of Bank Loans in AA by #	93%	7%
% of Bank Loans in AA by \$	97%	3%

Source: Loan sample; Dun & Bradstreet data. *34% of AA businesses did not report revenue data.

Richardson branch lending exceeded the characteristics of the assessment area.

Geographic Distribution

Overall, the geographic distribution of lending to businesses exceeds the standards for satisfactory performance. It consistently exceeds the characteristics of the assessment area in moderate-income census tracts and is reasonable overall in low-income census tracts. Our sample included the 122 commercial real estate loans (Commercial RE) and commercial loans that were originated in the bank’s three assessment areas. The following tables show the geographic distribution of loans to businesses:

Table 3A - Geographic Distribution of Loans to Businesses in Harris County For the Bellaire and Harwin Branches (2001 and 2002)								
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
Commercial RE	6	12	27	24	31	35	36	29
Commercial	6	7	27	60	31	13	36	20
Total	6	9	27	41	31	25	36	25

Source: loan sample; U.S. Census; Dun and Bradstreet data.

In 2001 and 2002, the geographic distribution of lending in Harris County is slightly above the characteristics of the assessment area in low-income census tracts, and it exceeds the characteristics in moderate-income census tracts, especially for commercial loans. Lending in 2003 for the Bellaire and Harwin branches is reflected in Table 3B below:

Table 3B - Geographic Distribution of Loans to Businesses in Harris County For the Bellaire and Harwin Branches (2003)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Commercial RE	6	29	28	29	26	14	40	28
Commercial	6	8	28	46	26	29	40	17
Total	6	13	28	42	26	26	40	19

Source: loan sample; U.S. Census data; Dun and Bradstreet data.

Lending in both low- and moderate-income census tracts exceeds the characteristics of the assessment area in 2003. Next, we analyzed lending in Fort Bend County as shown in Table 3C on the next page:

Table 3C - Geographic Distribution of Loans to Businesses in Fort Bend County For the First Colony Branch (2001 and 2002)								
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
Commercial RE	3	14	6	29	39	43	52	14
Commercial	3	0	6	82	39	0	52	18
Total	3	5	6	61	39	17	52	17

Source: loan sample; U.S. Census data; Dun and Bradstreet data.

Lending for the First Colony Branch exceeds the characteristics of the assessment area in both low- and moderate-income census tracts. It is significant to note that Fort Bend County has only one low-income census tract and four moderate-income tracts. The one low-income tract and three of the four moderate-income tracts are in the assessment area. Nine of the eleven loans originated were to borrowers located in moderate-income census tracts. Next, we analyzed loans originated from the First Colony branch in 2003 as shown in Table 3D:

Table 3D - Geographic Distribution of Loans to Businesses in Fort Bend County For the First Colony Branch (2003)								
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
Commercial RE	3	9	7	9	22	27	68	55
Commercial	3	0	7	33	22	33	68	34
Total	3	7	7	14	22	29	68	50

Source: loan sample; U.S. Census data; Dun and Bradstreet data.

Lending in both low- and moderate-income tracts exceeds the characteristics of the assessment area. Next, we considered lending of the Richardson branch as shown in Table 3E below:

Table 3E - Geographic Distribution of Loans to Businesses in Dallas and Collin County Richardson Branch (2001 and 2002)								
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
Commercial RE	1	0	8	20	45	80	46	0
Commercial	1	0	8	0	45	57	46	43
Total	1	0	8	8	45	67	46	25

Source: loan sample; U.S. Census data; Dun and Bradstreet data.

The Richardson branch did not originate loans in 2001 and 2002 in low-income census tracts; however, very few businesses are located in those areas as shown in the table. Only 1% of the businesses are located in low-income census tracts. Lending in moderate-income census tracts exceeds the characteristics of the assessment area for commercial real estate loans although the bank did not originate any commercial loans in moderate-income census tracts. The total lending for both commercial real estate and commercial loans is close to the characteristics of the assessment area. Finally, we analyzed the geographic distribution of loans originated for the Richardson branch in 2003 as shown in Table 3F below:

Table 3F - Geographic Distribution of Loans to Businesses in Dallas and Collin County Richardson Branch (2003)								
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
Commercial RE	1	0	28	60	37	30	34	10
Commercial	1	0	28	20	37	60	34	20
Total	1	0	28	47	37	40	34	13

Source: loan sample; U.S. Census data; Dun and Bradstreet data.

As in 2001 and 2002, the Richardson branch did not originate any loans in low-income census tracts. However, lending in moderate-income census tracts overall exceeds the characteristics of the assessment area.

Responses to Complaints

AFNB has not received any complaints about its performance in helping to meet assessment area needs during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.