

PUBLIC DISCLOSURE

November 1, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Anahuac National Bank
Charter Number 16625**

**Farm Road 563 at Belton Lane
Anahuac, TX 77514**

Comptroller of the Currency

**1301 McKinney Street, Suite 3750
Houston, Texas 77010**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Anahuac National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of November 1, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **A Satisfactory.**@

Factors supporting Anahuac National Bank's CRA rating are:

- o The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and credit needs of the assessment area.
- o A substantial majority of the loans are made within the bank's assessment area which encompasses all of Chambers County.
- o The geographic distribution of loans covers a majority census tracts and reflects reasonable dispersion throughout the assessment area.
- o A reasonable penetration of loans are granted to low- and moderate-income individuals and businesses of different sizes.
- o No complaints have been filed concerning the bank's CRA performance during the current evaluation period.

DESCRIPTION OF INSTITUTION

Anahuac National Bank (ANB) is a \$34 million institution located in Anahuac, Texas. The bank is a wholly owned subsidiary of a Delaware company, ANB Bancshares of Delaware, Inc., which in turn, is a wholly-owned subsidiary of Anahuac Bancshares, Inc. Holding company assets consist primarily of the bank, Anahuac National Bank.

The bank operates a single office located in Anahuac, Texas, which includes an attached drive-up facility. The bank does not operate an automated teller machine. The bank plans to open a branch office in the next year. The proposed branch will be located in Mont Belvieu, Texas, located 20 miles from the main office.

The bank continues to meet the credit needs within its assessment area. The bank offers a variety of retail and commercial products and services that are commensurate with the bank's size and financial resources. ANB has experienced moderate loan growth since 1996, increasing its loan portfolio by almost \$3 million or 31%. The bank's asset mix consists of loans 36% and investment securities 53%. The loan portfolio is diversified with approximately 42% in consumer and other loans, 39% in residential real estate, 12% in agriculture, and 6% in commercial loans. The bank's primary lines of business are consumer and residential real estate lending.

No legal impediments exist that would prevent the bank from continuing to meet the credit needs of its entire assessment area. The last CRA examination of ANB was November 4, 1996, and the bank was assigned a *Satisfactory* rating.

DESCRIPTION OF ASSESSMENT AREA

ANB has defined its primary assessment area as Chambers County. Chambers County is part of the Houston Metropolitan Statistical Area. The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The income characteristics of the assessment area are described using information from the 1990 U.S. Census and from updated information produced by the Department of Housing and Urban Development. The median family income for Chambers County according to the 1990 census data was \$36,886. The updated median family income for 1999 according to the Department of Housing and Urban Development has increased to \$54,100. There are six census tracts located in Chambers County, two of which are categorized as moderate-income, two as middle-income, one as upper-income, and one is not categorized, the wildlife refuge.

The City of Anahuac is the county seat for Chambers County. Anahuac also serves as a

Abedroom@community to Winnie, Beaumont, Baytown and Houston due to its proximity to these towns. According to the United States Census Bureau, the 1990 population of Chambers County was 20,088. The Texas State Data Center - Center for Demographics and Socioeconomic Research and Education estimated the 1998 population of the county at 25,401. Per the Chambers County Office of Economic Development, the county has seen an increase in the number of people moving into the area due to the availability of land, low crime rate, good school districts, and easy access to surrounding metropolitan areas.

The local economy is based on manufacturing, rice and soybean farming, cattle ranching, commercial fishing, and oil production. The labor force consists of 6,521 jobs. County and local government largely represents the local labor force with 1,461 jobs per the Texas Workforce Commission as of the third quarter 1998. Primary private employers are in the industries of manufacturing (1,646 jobs), trade (1,181), service (671), transportation and public utilities (416), mining (409), and construction (402). The unemployment rate, according to the Chambers County Office of Economic Development, is 4%.

ANB's competition consists of the state bank located in Anahuac, Texas.

One community contact was made in the assessment area. The contact indicated that the banks in the vicinity are responsive to the needs of the community and that ample financing is available to small businesses.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

ANB is performing in a satisfactory manner in meeting the credit needs of its assessment area consistent with its resources and capabilities.

Loan-to-Deposit Ratio

Since the last CRA evaluation dated November 4, 1996, ANB's loan-to-deposit ratio has averaged 56%. During the twelve quarters since the last CRA examination, the loan-to-deposit ratio has ranged from a low of 47% to a high of 67% as of June 30, 1998.

As of September 30, 1999, the bank's loan-to-deposit ratio was 55%, which is lower than similarly situated banks' (peer group) loan-to-deposit ratio of 67%. ANB's loan-to-

deposit ratio is skewed by the volume of public funds on deposit at the bank. The loan-to-deposit ratio net of public funds was 78% as of September 30, 1999. ANB's loan-to-deposit ratio as of September 30, 1999, exceeds the loan-to-deposit ratio of its local competitor by a significant margin, a difference of 30%.

Based on this information, ANB's loan-to-deposit ratio meets the standards for satisfactory performance.

Lending in Assessment Area

A substantial majority of the bank's dollar volume and number of loans originated in its assessment area. ANB analyzes the geographic distribution of its total loan portfolio on a quarterly basis. The report dated September 30, 1999, reflects that lending in the assessment area of Chambers County represents 79% of the dollar volume of the outstanding loan portfolio. Table 1 reflects the distribution of the outstanding loan portfolio.

Table 1

	Loans in Portfolio	Loans in Area	%
#	1,067	894	86%
\$000's	13,028	10,294	79%

An examiner analysis of loan originations was performed. A sample of forty commercial and consumer loans originated in the last 18 months was reviewed to assess the volume of lending within the assessment area. This analysis reflected that the majority of the loans in the sample were originated to consumers and businesses located within the assessment area. Table 2 reflects the results of this analysis.

Table 2

	Loans in Sample	Loans in Area	%
#	40	35	88%
\$000's	1,980	1,824	92%

Year to date information reported on the 1999 Home Mortgage Disclosure Act - Loan Application Register (HMDA-LAR) was also reviewed. As of September 30, 1999, the bank reported 92 approved loans on the HMDA-LAR. This analysis reflected that a substantial majority of all residential

real estate reported transactions were extended to borrowers located within the designated assessment area. Table 3 reflects the results of this analysis.

Table 3

	Approved Loans YTD HMDA-LAR	Loans in Area	%
#	92	81	88%
\$000's	1,363	1,090	80%

Based on the analysis detailed above, the bank's performance exceeds the standards of satisfactory performance.

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

The distribution of loans reflects good penetration among individuals of different income levels and businesses of different sizes. An examiner analysis of commercial and consumer loans reflects reasonable lending to borrowers of low- and moderate-incomes. A sample of 20 consumer loans and 20 commercial loans were reviewed to assess the lending patterns to borrowers of different income levels and businesses of different sizes.

Based on the findings of the review, eight loans or 40% were to low-income individuals, four loans or 20% were to moderate-income individuals, three or 15% percent were to middle-income individuals and five or 25% were to high-income individuals. Sixty percent of the sample were to low- and moderate-income borrowers.

The analysis of the commercial loans reflected that 18 out of 20 loans, or 90%, were to businesses with annual revenues less than \$1 million. Businesses with revenues less than \$1 million are defined as small businesses by the Small Business Administration.

The HMDA-LAR was also reviewed. The HMDA-LAR reflects a reasonable penetration of lending to borrowers of low- and moderate-income levels. Thirty-six percent of HMDA reportable loans were made to low- and moderate-income levels. This level is comparable to the number of low- and moderate-income families within the assessment area, which is 39% percent. Table 4 reflects the results of the analysis.

Table 4

1999 Home Mortgage Disclosure Loans - Income Distribution					
	Low	Moderate	Middle	High	% Loans

1999 Home Mortgage Disclosure Loans - Income Distribution					
	Income	Income	Income	Income	HMDA-LAR
Home Purchase	14%	14%	29%	43%	8%
Home Improvement	27%	22%	18%	33%	49%
Refinancing	13%	10%	22%	53%	43%
Total HMDA Loans	20%	16%	22%	42%	100%
Area Demographic Characteristics- Percent of Families	23%	16%	22%	39%	

Based on the information noted above, the bank's distribution of loans to borrowers of different income levels and businesses of different sizes meets the standards of satisfactory performance.

Geographic Distribution of Loans

A geographic distribution analysis of the HMDA-LAR was performed to review the bank's lending patterns throughout the assessment area. The results of the review indicated that the bank is originating loans to borrowers located in all census tracts within the assessment area, including the two census tracts that are defined as moderate-income.

The heaviest penetration of loan approvals were in the census tracts which included the bank, the City of Anahuac and the contiguous area, which is reasonable. These census tracts, census tracts 1102 and 1104, are defined as moderate-income and middle-income, respectively. Lending within these two census tracts equates to 84% of the number of loans on the HMDA-LAR and 67% of the dollar volume. Lending in the moderate income census tracts, census tracts 1102 and 1103, equates to 33% of the number of loans on the HMDA-LAR and 20% of the dollar volume. Overall, the geographic distribution of loans throughout the assessment area is reasonable and the bank's performance meets the standards of satisfactory performance.

Response to Complaints

The bank has not received any complaints regarding its CRA performance. However, the bank has a good process in place to handle any consumer related complaints.

Other Information

No violations of the substantive provisions of the anti-discrimination laws and regulations were noted at the concurrent Fair Lending examination of the bank.