



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

June 6, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Anahuac National Bank
Charter Number 16625**

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

**Comptroller of the Currency
Houston Field Office
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.

Anahuac National Bank (ANB) meets the credit needs of its assessment area (AA). The following factors support this conclusion:

- The loan-to-deposit ratio meets the standard for satisfactory performance.
- The bank has satisfactory performance for lending to individuals and business within their assessment area.
- The distribution of loans to businesses with revenues less than \$1 million meets the standard for satisfactory performance.
- The borrower distribution of loans to low- and moderate-income persons exceeds the standard for satisfactory performance.
- The geographic distribution of residential real estate loans meets the standard for satisfactory performance.

DESCRIPTION OF INSTITUTION

ANB is a \$39 million full service bank located in Anahuac, Texas. ANB has a main office at Farm Road 563 at Belton Lane, Anahuac, Texas and a branch located at 11402 Eagle Drive, Mont Belvieu, Texas. The bank offers a full range of credit products within its assessment area including residential real estate, commercial, and consumer loan products. The primary loan product is real estate loans. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the AA. ANB's last Community Reinvestment Act (CRA) examination was on November 1, 1999. The branch in Mont Belvieu opened on July 10, 2000.

Please refer to ANB's CRA public file for more information about the institution.

DESCRIPTION OF ASSESSMENT AREA (AA)

The bank operates in a rural community located approximately 50 miles east of Houston, Texas in Chambers County. Chambers County has six census tracts, two of which consist mainly of marshland and pasture. The western section of Chambers County borders Baytown and the eastern quadrant of Houston, Texas. The bank has also included the following in its designated assessment area (AA): five census tracts located in Liberty County and three census tracts located in Jefferson County. The total AA consists of 14 census tracts, 5 of which are designated as moderate-income tracts, 6 are middle-income tracts, 2 are upper-income tracts, and 1 does not have an income level designation.

The Texas Workforce Commission 1999 report reflected county and local government largely representing the local labor force in the AA. The 2000 census data also reflected the main employers for this AA as Services (31%), Retail Trade (19%), Agricultural (7%), and Construction (7%). Chambers County's unemployment rate for February 2000 is 4.4%. The total population for the AA is 65,239. Total families in the area are comprised of 22% low-income, 17% moderate-income, 22% middle-income, and 39% upper-income families.

The bank has also included 20 census tracts in Harris County in its AA to accommodate the opening of the branch in Mont Belvieu, Texas. Six of these are designated as moderate-income tracts, 10 are middle-income tracts, and 4 are upper-income tracts. The total population for this area is 90,112. The area represents a small portion of Harris County.

Harris County is the third largest county in the United States with a population of over 3.4 million residents, and is approximately 1,788 square miles. Houston is the largest city in the county, the capital seat, and the fourth largest city in the United States.

Please refer to ANB’s CRA public file for more information about the AA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our review focused on residential real estate loans, consumer loans, and commercial loans. Real estate loans represent 62% of the total loan portfolio of \$25.5 million. Loans classified as individual represent 21%, commercial loans represent 13%, and agricultural loans represent 4% of the total loan portfolio. The consumer data was compared to 2000 U. S. Census data. Commercial lending data was compared to Dunn and Bradstreet data for 2004.

Loan-to-Deposit Ratio

The average quarterly loan-to-deposit ratio meets the standard for satisfactory performance. Since the last performance evaluation, the 23-quarter average as of June 30, 2005 is 56%. The loan-to-deposit ratio for the quarter ended June 30, 2005 was 67%. The bank has shown a steady increase in the loan-to-deposit ratio since the last performance evaluation. A 21-quarter average of a similarly situated state financial institution in the assessment area is 30% for the same time period. This state bank is also located in Anahuac, Texas, and is the main competitor of ANB.

Lending in Assessment Area

The bank satisfactorily originates a majority of its loans in its assessment area. The analysis included 95 loans, specifically residential real estate as reported on Home Mortgage Disclosure Act (HMDA) data and a sample of consumer and commercial loans. Performance in each loan category is shown in the following table:

Loan Type	Number of Loans				Total
	Inside		Outside		
	#	%	#	%	
Residential Real Estate - HMDA data	50	88	7	12	57
Commercial Loans	16	84	3	16	19
Consumer Loans	19	100	0	0	19
TOTALS	85	89	10	11	95

Source: HMDA data and loan sample.

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

Overall, the bank’s level of lending to borrowers of different incomes and to businesses of different sizes exceeds the standards for satisfactory performance.

The following table displays the bank’s lending to borrowers of different incomes levels for residential real estate loans as reported on Home Mortgage Disclosure Act data, and a sample of consumer and commercial loans.

Borrower Distribution of Loans in Assessment Area								
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
Residential Real Estate -HMDA data	23	13	18	20	21	19	38	37
Consumer Loans	23	26	18	37	21	16	38	16

Source: HMDA data for 2001-2004, and sampled loans; 2000 U.S. Census data

The analysis is based on the HMDA data, which represented 50 real estate loans within the AA, and 19 sampled consumer loans. The bank’s performance is above the income characteristics of the assessment area for low- and moderate-income persons.

The following table displays ANB’s lending to businesses of different sizes based on a sample of loan originations for commercial loans:

Borrower Distribution of 2002 Loans to Businesses in Harris County				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	64	4	32	100%
% of Bank Loans in AA by #	63	25	12	100%

Source: loan sample; Dunn and Bradstreet data for 2004.

At 63% of the number of loans to businesses, this table reveals a reasonable level of lending to small business borrowers with gross annual revenues less than \$1 million. This satisfactorily compares to Dunn and Bradstreet data showing 64% of reporting businesses had gross annual revenues of \$1 million or less. A high level of businesses did not report gross annual revenues in 2004 according to Dunn and Bradstreet data.

Geographic Distribution of Loans

Overall, the geographic distribution of loans meets the standard for satisfactory performance.

The following table displays the geographic distribution of ANB’s lending practices based on residential real estate loans as reported on Home Mortgage Disclosure Act data, and a sample of consumer loans:

Geographic Distribution of Loans in Assessment Area								
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
Residential Real Estate - HMDA data	0	0	28	28	45	54	27	18
Consumer	0	0	28	5	45	74	27	21

Source: loan sample; Demographic data source 2000 U.S. Census data.

The geographic distribution of residential real estate loans is equal to the characteristics of the assessment area for low- and moderate-income tracts. Therefore, overall geographic distribution meets the standard for satisfactory performance.

The next table illustrates the distribution of the bank’s loans based on our sample of business borrowers:

Geographic Distribution of 2002 Loans to Businesses in Assessment area								
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	0	0	23	6	53	31	24	56

Source: loan sample; Dunn and Bradstreet data for 2004.

This table reveals that 6% of the loans granted to businesses were granted in moderate-income census tracts, which is below the characteristics of the assessment area. ANB has limited opportunities in the Chambers County AA due to the rural nature of the area. Harris County has a large number of financial institutions of all sizes offering a wide variety of products and services, and competition is intense. Commercial loans represent less than 13% of the total loan portfolio for ANB. With these mitigating circumstances, the market penetration of this product is reasonable.

Responses to Complaints

ANB did not receive any consumer complaints regarding its CRA performance during the assessment period.

Fair Lending or Other Illegal Credit Practices Review

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