

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 13 , 1999

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**American Bank, N.A.
Charter Number: 17319**

**200 West Highway 6
Waco, Texas 76712**

**Office of the Comptroller of the Currency
Southwestern District
Austin Field Office
8310 North Capital of Texas Highway, Suite 250
Austin, Texas 78731-1080**

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 the 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 CRA performance of *American Bank, N.A. (AB), Waco Texas*, as prepared by the *Office of the Comptroller of the Currency (OCC)*, the institution's supervisory agency, as of September 13, 1999. The OCC 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 “**Satisfactory.**”

- C AB's lending performance is satisfactory given its size, financial condition, and known credit needs in its assessment area.
- C The loan-to-deposit (LTD) ratio is satisfactory and averaged 58% since our last examination.
- C A substantial majority of AB's loans are within its assessment area.
- C AB has demonstrated a satisfactory willingness to extend loans to individuals of varying incomes and small businesses of different sizes.
- C The geographic distribution of loans is reasonable and consistent with the demographic composition of the assessment area.
- C There have been no complaints with respect to AB's CRA performance.

The following pages further describe AB's CRA performance.

DESCRIPTION OF INSTITUTION

AB is a 166 million (MM) institution headquartered in Waco, Texas, approximately 100 miles north of Austin, Texas. This bank is a subsidiary of and 100% owned by American National Bancshares, Inc., a one-bank holding company (HC) located in Waco. Total assets of the HC as of June 30, 1999, were 13,145 thousand (M). In addition to the main office, the bank has one additional full-service bank office as well as four automated teller machines (ATMs) located in its assessment area.

The institution's principal focus is to promote economic development in its assessment area through its lending programs and community involvement. AB's primary lending products include commercial and residential real estate, small business, and consumer loans. Total loans as of June 30, 1999, comprise 55% of total assets. The following reflects a detailed breakdown of AB's loan portfolio as of June 30, 1999.

Loan Type	Dollar Amount (000's)	% of Total Loans
Real Estate (RE) Construction	5,655	6.2
RE Farmland	1,109	1.2
RE Residential (1-4)	21,304	23.2
RE Multifamily Residential	4,158	4.5
RE Nonfarm Nonresidential	21,674	23.6
Agricultural Production	694	0.7
Commercial and Industrial	21,401	23.3
Credit Cards	510	0.6
Consumer	14,959	16.3
Other	309	0.4
Total	91,773	100.0

Bank lobby services are provided Monday through Friday at each office. Drive-through services are provided Monday through Saturday at both offices. AB faces competition from area banks, savings and loans, credit unions, 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 various credit needs in its community. AB also has a 24-hour telephone audio response system (TeleBank) which allows customers to obtain account balance information, review account transactions, or transfer funds. At the last CRA examination on April 30, 1996, the bank's CRA rating was "SATISFACTORY." No legal impediments or other factors hinder the bank's ability to provide credit in its assessment area.

DESCRIPTION OF ASSESSMENT AREA

AB's assessment area includes all of McLennan County which is located in the Waco Metropolitan Statistical Area (MSA) and a number of smaller communities. This area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income (LMI) geographies. Based on 1990 U.S. Census data, this area has a population of 189M. The assessment area includes four low-income tracts, 11 moderate-income tracts, 23 middle-income tracts, and 14 upper-income tracts. According to the 1990 housing data as provided in the census, there are 79M housing units in the bank's assessment area of which 53% are owner-occupied, 36% are renter-occupied, and 11% are vacant. The median year built for housing was 1965, with a median value of 50M.

Approximately 21% of the families in the assessment area are considered low-income.

Moderate-income families approximate 17% of the population, while middle- and upper-income families comprise the remaining 62%. Approximately 21% of households are below the poverty level. The local economy is considered very good with an unemployment rate of approximately 4%. The largest single industry in Waco is higher education with Baylor University, Texas State Technical College, and McClennan Community College. Other major employers include the health care industry, local government, hospital, light manufacturing, and distribution centers. Examples of other major employers include Raytheon Technologies, Hillcrest Baptist Medical Center, Plantation Foods, Providence Health Systems, and the Waco Independent School District. Income data from the 1990 census revealed that the weighted-average median family income for this area is 30M. Updated 1999 information indicates that the weighted-average median family income has increased to 43M.

In order to gather more current information on the nature of the community and potential lending opportunities in the assessment area, we contacted two community leaders during this examination. One contact was a member of the Greater Waco Chamber of Commerce. The second contact was the Director of Housing and Community Development for the City of Waco. One contact mentioned that affordable housing loans for LMI families were needed in the Waco area. One contact further stated that AB is active in the community and responsive to the credit needs in its assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Management is performing satisfactorily in meeting the credit needs of the assessment area, including LMI

individuals and areas, consistent with its resources and capabilities.

Loan-to-Deposit Ratio

AB's LTD ratio is satisfactory, given its asset size, financial condition, and lending opportunities in the assessment area. Since the last CRA examination, the LTD ratio has steadily increased from 50% on June 30, 1996, to 60% on December 31, 1998. The average LTD ratio over the past 13 quarters was 58%, which is up from an average 46% during the previous examination. This performance is in line with competing banks headquartered in McLennan County which also averaged 58% during this same period.

The bank has a separate mortgage department which originates conventional, Fair Housing Act (FHA), and Veterans Administration (VA) mortgage loans, which are sold to permanent investors in the secondary market at time of funding.

Since April 1996, loans sold to permanent investors totaled 485M for the remainder of 1996, 7,240M in 1997, 12,628M in 1998, and 9,075M year-to-date 1999. Had these loans been recorded on the bank's books, the LTD ratio would have been higher.

AB is involved in the 1999 Heart of Texas Housing Finance loan program which assists in providing low interest loans and down payment assistance to LMI home buyers. AB has made six loans totaling 318M under this program.

Lending in the Assessment Area

A substantial majority of the bank's loans are within its assessment area. Using Home Mortgage Disclosure Act (HMDA) information since the last examination and internal reports provided by management, we performed an analysis of lending patterns within the assessment area. Our analysis determined that 94% of the number and 95% of the dollar amount of mortgage-related loans were made within the bank's assessment area. Management's analysis also determined that 91% of the number and 89% of the dollar amount of all mortgage, consumer, and commercial loans originated since May 1996, were within the bank's assessment area.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The loan portfolio reflects a satisfactory distribution of mortgage and consumer loans among individuals of various income levels and a satisfactory dispersion to businesses of different sizes. In order to assess this bank's performance in this criteria, we used HMDA information relative to mortgage loan products originated since the last examination, and a sample of consumer and business loans originated during the

same period. Our analysis indicates that AB lends to applicants, regardless of their income category. Our initial analysis of HMDA information, however, determined that the volume of mortgage loans to low-income borrowers was below area demographics. Based on 1990 census data, low-income families represent 22% of the assessment area. Our analysis indicates that only 5% of mortgage loans were made to low-income families. According to management, LMI families tend to apply for fixed rate loans on terms which are outside the bank's loan policy guidelines. Attempts are made by management, however, to qualify these borrowers through the secondary mortgage market which provides longer-term, fixed rate products. Our review of secondary market mortgage loans originated in 1999 revealed that a number of these were made to LMI borrowers. As mentioned previously, AB is involved in the Heart of Texas Housing Finance loan program in an effort to meet affordable housing demands to LMI borrowers in their assessment area. The table listed below summarizes our analysis of lending activity in the assessment area by different incomes levels.

Loans to Borrowers of Different Income Levels										
	Low- Income Families		Moderate- Income Families		Middle- Income Families		Upper- Income Families		Total	
Area Demographics	21.72%		17.18%		21.88%		39.22%		100.00%	
# of Families	10,513		8,315		10,590		18,981		48,399	
	#	%	#	%	#	%	#	%	#	%
Mortgage/Home Improvement/ Refinanced Loan Distribution	13	5%	33	13%	37	14%	177	68%	260	100%
Consumer Loan Distribution	7	23%	12	40%	6	20%	5	17%	30	100%
Combined Loan Distribution	20	7%	45	16%	43	14%	182	63%	290	100%

AB originates a satisfactory number of commercial real estate and commercial and industrial loans, a number of which have been to "small businesses" with revenues less than 1MM. Management continues to focus on providing loans that will enhance the local economy. The following chart reflects the results of our analysis of a sample of commercial real estate and commercial and industrial loans originated since the last examination.

Loans to Small Businesses										
Revenue Ranges	< \$100M		\$101M - \$250M		\$251M - \$500M		\$501M - \$1 MM		> \$1 MM	
	#	%	#	%	#	%	#	%	#	%
Commercial RE	4	20%	5	25%	5	25%	1	5%	5	25%
Commercial and Industrial	0	0%	3	14%	4	18%	8	34%	8	34%
Total	4	9%	8	19%	9	21%	9	21%	13	30%

Geographic Distribution of Loans

The geographic distribution of AB's loans is reasonable given the demographics of the assessment area. Our analysis included all mortgage-related loans and a sample of consumer loans originated since the last examination.

Our initial analysis appeared to indicate that the geographic distribution of mortgage loans in LMI census tracts did not reflect the make-up of the bank's assessment area. Of the 52 census tracts that are applicable to AB's assessment area, four tracts or 8% are considered low-income. Our loan sample revealed that only 3% of mortgage loans were made within low-income census tracts. However, limited lending opportunities and physical restrictions of these areas contribute to the low number of mortgage loans within these areas. Of the four low-income census tracts, two are located in commercial business areas with few family residences. A third tract is located adjacent to Baylor University which consists mostly of student housing. The fourth low-income tract and several moderate-income tracts are located in areas which are more assessable to other banks and credit unions who have offices located in these specific areas.

The following chart reflects the results of our sample of the geographic distribution of mortgage and consumer loans originated within the bank's assessment area since the last examination.

Geographic Distribution of Loans By Census Tracts										
	Low- Income Areas		Moderate- Income Areas		Middle- Income Areas		Upper- Income Areas		Total	
Area Demographic Characteristics	8%		21%		44%		27%		100%	
Number of Census Tracts	4		11		23		14		52	
	#	%	#	%	#	%	#	%	#	%
Mortgage Purchases										
Refinance										
Home Improvement	7	3%	37	15%	118	47%	87	35%	249	100%
Consumer	2	8%	3	12%	15	57%	6	23%	26	100%
Combined Total	9	3%	40	15%	133	48%	93	34%	275	100%

Response to Complaints

No complaints relating to CRA performance have been received by AB.

Compliance with Fair Lending Laws and Regulations

A fair lending examination was conducted as part of a compliance examination of AB. Our review of consumer vehicle loans determined that the bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. No fair lending violations were identified.