



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**March 29, 2004**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

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

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

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

**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 the 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 Bank, N.A.'s (AB) lending performance 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 good and has averaged 72% for this evaluation period. Such ratio is consistent with competing banks within the AA.
- A substantial majority of AB's loans are within its AA.
- AB has demonstrated a satisfactory willingness to extend loans to individuals of varying incomes and businesses of different sizes.
- The geographic distribution of the bank's loans within the AA is very good.
- Qualified investments and Community Development Services are limited.
- There have been no complaints with respect to AB's CRA performance.

## **DESCRIPTION OF INSTITUTION**

AB is a 240 million (MM) bank headquartered in Waco, Texas, approximately 100 miles north of Austin, Texas. The bank is 100% owned by American National Bancshares, a one-bank holding company (HC) located in Waco. Total assets of the HC as of December 31, 2003 were 23.1MM. In addition to the main office, AB has one additional full-service bank office that is located in a moderate-income census tract (CT). The bank has five automated teller machines (ATMs) located in its AA.

The institution's principal focus is to promote economic development through its lending programs and community involvement. AB's primary lending products include commercial and residential real estate, other small business, and consumer loans. AB also participates in government guaranteed small business loans. Total loans outstanding as of December 31, 2003, amounted to 164MM, which represent 68% of total assets. The following table reflects a detailed breakdown of AB's loan portfolio as of December 31, 2003.

<b>Loan Type</b>	<b>Dollar Amount (000's)</b>	<b>% of Total Loans</b>
Real Estate (RE) Construction	27,998	17.1
RE Farmland	1,539	0.9
RE Residential (1-4)	33,273	20.3
RE Multifamily Residential	3,614	2.2
RE Nonfarm Nonresidential	40,151	24.5
Agricultural Production	438	0.3
Commercial and Industrial	42,197	25.8
Consumer	14,222	8.7
Other	336	0.2
<b>Total</b>	<b>163,768</b>	<b>100</b>

Bank lobby services are provided Monday through Friday at each office. Drive-through services are provided Monday through Saturday at both offices. AB has a 24-hour telephone audio response system, which allows customers to obtain account balance information and transfer funds between accounts. This institution also has an Internet web site ([www.ambankwaco.com](http://www.ambankwaco.com)), which allows customers to obtain account balance information, transfer funds between accounts, bill payment, and document imaging. In addition, customers can complete and submit loan and deposit applications via the Internet.

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. At the last CRA examination in September 1999, AB's CRA rating was "**Satisfactory.**" No legal impediments or other factors hinder the bank's ability to provide credit in its AA.

## **DESCRIPTION OF ASSESSMENT AREA**

AB's AA includes all of McLennan County, which is located in the Waco Metropolitan Statistical Area (MSA) and a number of smaller communities. This area is made up of 53 CTs, which surround and include each banking office. One CT (0022.00) is comprised entirely of institutionalized persons and does not have a designated income level. Specific demographic and economic data for this AA is listed in the table on the following page.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<b><i>Population</i></b>	
Number of Families	48,399
Number of Households	70,153
<b><i>Geographies</i></b>	
Number of MSAs	53
% Low-Income MSAs	4
% Moderate-Income MSAs	11
% Middle-Income MSAs	23
% Upper-Income MSAs	14
NA	1
<b><i>Median Family Income (MFI)</i></b>	
1990 MFI for AA	29,584
2001 HUD-Adjusted MFI	45,300
2002 HUD-Adjusted MFI	46,300
<b><i>Economic Indicators</i></b>	
Unemployment Rate	3.00
2002 Median Housing Value	49,597
% of Households Below Poverty Level	20.00

This area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income (LMI) geographies. A further description of the AA is presented below.

According to the 1990 housing data as provided in the census, there are 79M housing units in the AA 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 50 thousand (M).

Based on 1990 Census data, the AA has a combined population of 189M. Approximately 21% of the families in the AA are considered low-income. Moderate-income families approximate 17% of the population, while middle- and upper-income families comprise the remaining 62%. The local economy is considered stable with an unemployment rate of less than 4%. The largest single industry in Waco is higher education with Baylor University, Texas State Technical College, and McLennan Community College. Other major employers include the health care industry, local government, hospital, light manufacturing, and distribution centers. Income data from the 1990 census revealed that the median family income for this area is 30M. Updated 2002 information indicates that the median family income has increased to 46M.

In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted one community leader during this examination. The contact was the Executive Director of the Waco Community Development Corporation (WCDC). In addition, community contacts by the office over the past 12 months, within the City of Waco, were also used in this analysis. These contacts indicated that the local economy is considered stable.

Banking products are considered adequate and easily available. These contacts stressed the need for affordable housing and rental properties for LMI families within the AA. The WCDC contact mentioned the need for a full service branch to be located in the low-income areas of East Waco.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

AB's LTD ratio is good given its asset size, financial condition, loan growth since our last evaluation, and lending opportunities within its AA. Since the last CRA examination, the LTD ratio has increased steadily from 60% on September 30, 1999, to 74% on December 31, 2002. The average LTD ratio over the past 14 quarters was 72%, which reflects an increase from an average 56% during the previous examination. Such performance is consistent and reasonable given the available loan demand and when compared with other banks headquartered in McLennan County.

The asset size and LTD ratio for AB and four competing banks during this period are listed below.

<b>Institution</b>	<b>Assets as of 12/31/03(*)</b>	<b>Average LTD Ratio % (**)</b>
Central National Bank	394,000	75.59
First National Bank of Central Texas	260,000	83.78
Texas First State Bank	151,000	77.36
Community Bank & Trust	266,000	72.10
<b>American Bank NA</b>	<b>240,000</b>	<b>72.16</b>

\* Asset sizes of institutions are in thousands (000's)

\*\* The average LTD ratio for the four comparable banks and AB is for the period from September 1999 through December 2002.

### Lending in Assessment Area

A substantial majority of AB's loans were made within its AA. In order to assess performance for these criteria, we reviewed a sample of 29 commercial real estate and 26 consumer loans originated in 2000 through 2002, and residential mortgage loans originated in 2000 through 2002 that were reported on the Home Mortgage Disclosure Act Loan Application Register (HMDA). Our analysis determined that 90% of the number and 86% of the dollar amount of residential real estate loans were made within the AA. We further determined that 92% of the number and 87% of the dollar amount of consumer loans were made within AB's AA. Finally, we determined that 79% of the number and 69% of the dollar amount of commercial real estate loans were made within the AA.

TOTAL LOANS REVIEWED								
LOAN TYPE	In Assessment Area				Out Of Assessment Area			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential Real Estate	248	90	20,995	86	29	10	3,559	14
Consumer	24	92	200	87	2	8	29	13
Commercial Real Estate	23	79	3,128	69	6	21	1,406	31
Total	295	89	24,323	83	37	11	4,994	17

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

The loan portfolio reflects a satisfactory distribution of residential, consumer, and commercial real estate loans among individuals of various income levels and businesses of different sizes within the AA. In order to assess this bank's performance within this AA, we used HMDA information relative to residential real estate loans originated in 2000 through 2002, and a sample of 23 consumer loans originated during the same period.

Our analysis reflects a very good consumer loan penetration to LMI area households. However, the bank's penetration of residential loans to LMI households is below family demographics within this AA. Based on the 1990 Census, 22% of AA families are low-income and 17% are moderate-income. Our review of HMDA reportable loans determined that only 4% of residential loans originated were made to low-income families and 7% were made to moderate-income families. 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 LMI families could qualify for.

The following charts reflect the results of our sample of residential and consumer loans originated in AB's AA.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	21.7		17.2		21.9		39.2	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	4.4	1.4	6.9	3.4	11.3	7.6	77.4	87.6

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	27.0		14.4		16.3		42.3	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	34.8	21.1	30.4	14.5	17.4	11.3	17.4	53.1

AB originates a satisfactory number of commercial real estate loans, the majority of which have

been made 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 our analysis of a sample of 23 commercial real estate loans made from 2000 through 2002.

<b>BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES</b>		
<b>Business Revenues</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>
% of AA Businesses	93	7
% of Bank Loans in AA #	83	17
% of Bank Loans in AA \$	72	28

### **Geographic Distribution of Loans**

The geographic distribution of AB’s loan is very good given the demographics of the AA. Our analysis included all HMDA reportable loans originated in 2000 through 2002, and a sample of 25 consumer and 23 commercial real estate loans originated during this same period.

AB’s geographic distribution of residential and commercial real estate loans is very good and consistent with the AA demographics of the LMI CTs. However, our initial analysis appeared to indicate that the geographic distribution of consumer loan in the low CTs did not reflect the make-up of the bank’s AA. Of the 52 CTs that are applicable to AB’s AA, four tracts or 8% are considered low-income. Our loan sample revealed that no consumer loans were made within the low-income CTs. However, further analysis revealed that limited lending opportunities and physical restrictions of these areas contribute to the lack of consumer loan penetration into these low-income CTs. Two of these tracts represent commercial business areas with a third tract located adjacent to Baylor University, which consists mostly of student housing. The fourth tract represents the location of Texas State Technical College. Consumer lending penetration in the moderate-income CTs is excellent.

<b>RESIDENTIAL REAL ESTATE</b>								
<b>Census Tract Income Level</b>	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
% of AA Owner Occupied	3.3		20.1		43.2		33.4	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	4.8	5.8	16.5	6.1	31.5	27.6	47.2	60.4

<b>CONSUMER</b>								
Census Tract Income Level	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
% of AA Households	8.8		23.2		41.5		26.4	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	0.0	0.0	36.0	18.6	44.0	60.44	20.00	20.95

<b>BUSINESS LOANS</b>								
Census Tract Income Level	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
% of AA Businesses	3.9		21.2		42.9		32.0	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	4.3	8.6	17.4	12.0	30.4	23.4	47.9	56.0

### **Qualified Investments and Community Development Services**

AB initiated one qualified investment to support community activities within the City of Waco. AB committed 5M, over a three-year period, to provide general operating capital for the WCDC. The purpose of this organization is to help revitalize and redevelop low-income neighborhoods located in the inner-city areas of Waco. The first installment of 2.5M was paid in March 2004.

AB acts as a mortgage broker in offering long-term fixed rate loans through several national mortgage companies. Although the credit decision and loan funding is made by the mortgage company, AB works with the Neighborhood Housing Services of Waco (NHC) to identify and assist LMI borrowers in obtaining down payment assistance through this organization. Since the previous examination, AB helped two LMI borrowers obtain approval for down payment assistance through the NHC.

### **Responses to Complaints**

AB has received no complaints relating to CRA performance.

### **Fair Lending or Other Illegal Credit Practices Review**

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