



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 22, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Anderson
Charter Number 7337

Post Office Box 159
Anderson, TX 77830-0000

Office of the Comptroller of the Currency

Houston Field Office
1301 McKinney Street, Suite 1410
Houston, TX. 77010-3031

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.

Community Reinvestment Act RATING: This institution is rated Satisfactory.

First National Bank of Anderson (FNB Anderson) has a Satisfactory record of meeting community credit needs. This is based on the following:

- The loan-to-deposit ratio is reasonable in light of the bank's performance context, and meets the standards for Satisfactory performance.
- The bank's lending performance meets the standard for Satisfactory performance. A majority of loans were originated within the bank's Assessment Area (AA).
- Loan originations reflect a reasonable distribution among households and families of various income levels and businesses of different sizes within the AA.

SCOPE OF EXAMINATION

We completed a full-scope review of the bank's Community Reinvestment Act (CRA) activities in the AA. First National Bank of Anderson was evaluated under the Small Bank examination procedures, which includes the Lending Test. The Lending Test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities. Our examination evaluated the bank's lending performance from January 1, 2007 through March 20, 2010.

The bank's primary loan products are consumer loans, business loans, and farm/agriculture loans. Business and farm/agriculture loans are the largest products by dollar volume, while consumer loans are the largest product by number.

We selected a statistically valid sample using bank reports of loan originations in the three categories. The sample was used to determine lending in the AA, gross revenue, consumer income, and census tracts. Our sample consisted of 33 consumer loans, 33 business loans, and 36 farm/agriculture loans. Twenty loans of each product type, not secured by cash, were located in the AA.

DESCRIPTION OF INSTITUTION

FNB Anderson is a full-service commercial bank with total assets, and total deposits, as of December 31, 2009, of \$132.9 million and \$120 million, respectively. Total Loans as of the same date were \$77.4 million. The bank has been in operation for more than one hundred years, opening in July 1904, and is 100% owned by a one-bank holding company, First Anderson Bancshares, Inc., which was formed in 1984. Ownership of the holding company is local with 57 shareholders. There are no subsidiaries or other affiliates of FNB Anderson.

The bank offers a full range of lobby and drive-in services from its two locations both located in middle-income census tracts. The main branch is located at the intersection of Texas State Highway 90 (SH 90) and Farm-to-Market Road 1774 (FM 1774) in

Anderson, Texas. Anderson is the county seat of Grimes County, which the bank has defined as its AA. The second location is located at 9501 State Hwy 6 in Navasota, Texas, also in Grimes County. The bank offers Automated Teller Machines at both branches, and it provides online services from personal computers. It also provides a limited alternative delivery of services through a telephone voice response system. This system enables customers to access their accounts, check balances, transfer funds between accounts, and make loan payments. Hours of operations for both branches are reasonable offering both lobby and drive-in services Monday through Saturday.

The bank's primary loan products are consumer, business, and farm/agriculture by number and dollar volumes as indicated by call report data as of December 31, 2009.

There are no legal, financial, or other factors that would impede the ability of FNB Anderson to help meet the credit needs of its AA.

The last CRA Evaluation was conducted as of April 19, 2004 and resulted in a rating of Satisfactory.

Please refer to the bank's public file for additional information.

DESCRIPTION OF ASSESSMENT AREA(S)

Grimes County, Texas

The Board of Directors has designated all of Grimes County as its CRA AA. This evaluation of the bank's performance under the CRA will be determined based upon the loans the bank has made in its AA and the other services provided therein. This AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- to moderate-income geographies.

Grimes County is approximately 90 miles northwest of downtown Houston, and 35 miles southeast of the Bryan-College Station area. The area is characterized as rural, dominated by ranching and farming operations and other agricultural related concerns. Industrial businesses are also increasing. Beef cattle was one of the principal agricultural crops in Grimes County, but has begun to taper off as some large ranches are being divided up and sold in smaller parcels. Within the last several years, oil and natural gas production has gained in importance in Grimes County. Drilling activity is not constant and is directly related to the price of oil. When oil prices are high, the drilling activity expands because of increased demands. Some interest is also noted in the development of real estate for single family dwellings as the population of neighboring urban areas gradually spills into Grimes County and other rural areas. Employment opportunities are also provided by the two prisons operated by the State of Texas located in the eastern-most reaches of the county, just south of Navasota. Many area residents also have found employment in and around the Houston metropolitan area, including neighboring Montgomery County, as well as the Bryan-College Station area in adjacent Brazos County. FNB Anderson is the only bank in Anderson, Texas.

Competition in the AA is moderate with a few institutions located outside of Anderson.

The AA of Grimes County is divided into seven census tracts. Five of these tracts are considered Middle-Income tracts. One census tract is considered Moderate-Income and one tract is considered Upper-Income. There are no Low-Income Tracts in Grimes County. Of particular note, the single Moderate-Income tract lists a population of only three households. Adjacent to it is the county's sole Upper-Income tract, which lists a population of 18 households. These two tracts are anomalies, as they contain prisons and few non-institutional residential dwellings or few residents that are not prison inmates. Consequently, the bank's AA consists almost exclusively of Middle-Income tracts. The county boasts a population of 23,552 of which roughly 10.65% are institutionalized (state prison population). Of the 7,714 households in the county, 1,337, or 17%, are listed below the poverty level. The weighted average median home value is \$56,746 according to the U.S. Census Bureau and the weighted average monthly gross rent is \$428. The weighted average of the updated median family income for 2009 is \$45,600.

During the examination, we contacted a local businessman with knowledge of the area. This contact indicated that the general banking needs within the community is for small business loans. Primarily to existing small businesses for working capital needs. There is also some need for consumer loans. The contact stated that there was a new industry looking at the area for a possible branch location. If this industry does decide to establish themselves in this community, then this would create some new jobs and provide some lending opportunities for local financial institutions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio is reasonable in light of the bank's performance context, and meets the standards for satisfactory performance. The bank's quarter-end LTD ratios since June 30, 2004 averaged 59.01%. The average LTD ratio for similarly situated bank's in the AA and contiguous counties is 80.53%. Deposits of secured public funds represent 8.22% (\$9.9 million) of FNB Anderson's total deposits at December 31, 2009. Due to pledging requirements, these funds are not available for lending purposes. Adjusting for the public funds, at December 31, 2009, the bank's LTD ratio was 69.32%, which is reasonable for the bank's AA.

Lending in Assessment Area

A majority of loans were originated in the AA. We based our conclusion on our sample of consumer loans, commercial loans, and farm loans originated from January 1, 2007 to March 20, 2010. As shown in Table 1 below, 68.33% of the number of loans were originated in the AA. The dollar amount of loans percentage in the table below is greater outside the AA given the low loan demand for larger commercial loans in the AA. Management has supplemented this low loan demand by purchasing participations that are located outside the AA. For this reason, we applied more weight to the number

of loans to reach our conclusion.

Table 1 - Lending in FNB Anderson’s Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer Loans	14	70.00	6	30.00	20	122	58.53	87	41.47	209
Agriculture Loans	14	70.00	6	30.00	20	196	18.02	891	81.98	1,087
Commercial Loans	13	65.00	7	35.00	20	1,033	24.60	3,166	75.40	4,199
Totals	41	68.33	19	31.67	60	1,351	24.59	4,144	75.41	5,495

Source: Sample of loans.

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

Overall, the bank’s loan originations reflect a reasonable distribution among households and families of various income levels, including low- and moderate-income individuals and businesses and farms of different sizes within its AA. To complete this analysis, we reviewed a sample of commercial loans, farm loans, and consumer loans originated in the AA.

Commercial Loans

The distribution of small business loans reflects reasonable penetration to businesses of different sizes based upon an analysis of the borrowers’ gross annual revenues. We compared the bank’s loan originations to information about the size of businesses in the AA according to Dun and Bradstreet information.

As shown in the table below, the level of the bank’s lending to businesses with revenues of less than \$1 million is 71.43% by number of loans, which is near the characteristics of the AA. For dollar amount of loans, the bank’s performance is 33.66%, which is significantly lower than the characteristics of the AA. The size of loans extended to those borrowers with revenues less than \$1 million are considerably lower and has a significant effect on the percentage of the dollar amount of loans. Therefore, the number percentage was assigned a greater weight in our evaluation.

Table 2 - Borrower Distribution of Loans to Businesses in FNB Anderson’s AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	72.09	2.25	25.66	100%
% of Bank Loans in AA by #	71.43	19.05	9.52	100%
% of Bank Loans in AA by \$	33.66	56.22	10.12	100%

Source: Sample of loan; Dun and Bradstreet data.

Farm/Agriculture Loans

The distribution of small farm loans reflects reasonable penetration among farms of different sizes, particularly those with gross annual revenues of \$1 million or less. We reviewed the gross annual revenues of the sampled farm loans to determine the bank's performance and compared the performance to the characteristics of the AA according to Dun and Bradstreet data.

As shown in the table below, the bank's performance is below the characteristics of the AA. This is attributable to the changing demographics of the county. As Houston demographics migrate north, farmland is being divided and sold into smaller parcels for non-agricultural purposes. Also, within our sample there were several small farm loans that were cash-secured where income is not used in the credit decision. These loans make up the unavailable percentages in the table below.

Table 2A - Borrower Distribution of Loans to Farms in FNB Anderson's AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	100.00	0.00	0.00	100%
% of Bank Loans in AA by #	71.43	0.00	28.57	100%
% of Bank Loans in AA by \$	71.44	0.00	28.56	100%

Source: Sample of loans; Dun and Bradstreet data.

Consumer Loans

The level of lending to borrowers of different incomes demonstrates a reasonable penetration among borrowers of different income levels. The level of lending performance to low- and moderate-income borrowers exceeds the characteristics of the AA. We analyzed consumer lending using borrower income compared to the percentage of households by median household income levels according to U.S. Census information. The 2007 through 2009 median household income for Grimes County was \$32,581.

As shown in the table below, the bank's performance exceeds the characteristics of the AA for lending to low- and moderate-income households.

Table 2B - Borrower Distribution of Consumer Loans in FNB Anderson's AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	23.75	25.00	14.20	30.00	17.29	10.00	44.76	30.00

Source: Loan sample; U.S. Census data.

* Income not used in credit decision in 5% of the loan sample as they were cash secured

Geographic Distribution of Loans

A meaningful analysis of the geographic distribution of loans could not be performed because the bank's AA, Grimes County, Texas consists almost entirely of middle-income census tracts. Please see the description of the bank's AA, above for a more detailed description.

Responses to Complaints

The bank did not receive any complaints related to CRA during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.