



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**January 24, 2011**

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

Anahuac National Bank  
Charter Number 16625

801 S. Ross Sterling  
Anahuac, TX 77514-0000

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.

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

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

- The loan-to-deposit (LTD) ratio is more than reasonable and exceeds the standards for satisfactory performance given the institution's size and credit needs of its assessment area (AA).
- A substantial majority of the loan originations and lending-related activities are in the bank's AA.
- The borrower distribution of loans within the AA to individuals of different income levels and businesses of different sizes is reasonable and meets the standard of satisfactory performance.
- Lending in moderate-income census tracts (CTs) exceeded the standard for satisfactory performance for home purchases, home improvement and consumer loans.
- The percentage of loans to businesses in moderate-income CTs is only slightly below the characteristics of the Houston AA and meets the standard for satisfactory performance.
- There were no CRA related complaints during the evaluation period.

**SCOPE OF EXAMINATION**

ANB was evaluated under the Small Bank full-scope examination procedures which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. Our review was focused on the primary loan product both by number and dollar amount of loans. The bank's primary loan products are business, residential real estate, and consumer loans. Business and residential real estate 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 business and consumer loan originations from January 1, 2009 through December 31, 2010. The sample was used to determine the bank's record of lending in the AA, geographic distribution of originated loans, and the distribution of loans by the income level of the borrower. This included determining the level of penetration of small loans to businesses with revenues less than \$1 million. Our sample consisted of 21 business loans and 21 consumer loans. We also conducted data integrity testing on the Home Mortgage Disclosure Act Loan Application Register (HMDA-LAR) loans to determine the reliability of the loan information reported. We found the information to be reliable and therefore 100% of the residential real estate loan data for 2006, 2007, 2008 and 2009 was used.

## **DESCRIPTION OF INSTITUTION**

ANB is a \$68 million full-service community bank headquartered in Anahuac, Texas. ANB is 100% owned by a one-bank holding company, Anahuac Bancshares, Inc. Anahuac, Texas, is the county seat of Chambers County. ANB's main office is located at 801 S. Ross Sterling in Anahuac, Texas, in a middle-income CT. The bank also operates two full-service branches. The Barbers Hill Banking Center is located at 11402 Eagle Drive in Mont Belvieu, Texas, in an upper-income CT. The East Chambers County Bank is located at 810 Highway 124 in Winnie, Texas, in a moderate-income CT. This branch opened on May 11, 2007. In addition to the full-service locations, the bank has dedicated drive-up facilities at all branch locations which include drive-up Automated Teller Machine services. Banking hours are reasonable and meet the needs of the community, with regular lobby hours Monday through Thursday and extended lobby hours on Friday. All three locations offer Saturday service. In addition, customers can access their accounts through a telephone banking product and online on the bank's website.

As of September 30, 2010, ANB had a Tier One Leverage Capital Ratio of 10.01%. The bank offers an array of standard deposit and loan products and services, including deposit accounts, certificates of deposit, Individual Retirement Accounts, safe deposit box services, mortgage loans, consumer loans and commercial loans,. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the AA. The bank was rated Satisfactory at its last CRA examination dated June 06, 2005.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

The Houston AA is comprised of Chambers County and portions of Liberty and Harris Counties. The bank's AA is part of the Houston-Baytown-Sugarland Metropolitan Statistical Area (MSA). The delineation meets the legal requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographic areas. The Houston AA consists of zero low-income (0%); 11 moderate-income (35%); 13 middle-income (42%); 6 upper-income (19%); and 1 unknown (3%) CT based on 2000 Census data. The bank's main office and two branches are located in Chambers County.

There are 56,269 total housing units in the Houston AA, with 38,842 of these being owner-occupied units. Of the total owner occupied units, none are located in low-income tracts, 31% are located in moderate-income tracts, 40% are located in middle-income tracts, and 29% are located in upper-income tracts. The 2010 updated MSA median family income for the Houston AA was \$65,100. According to the 2000 Census the total population of the Houston AA was 143,720 with 12% of households living below the poverty level. The median value of a single-family residence is \$69,223.

The overall economic condition of the Houston AA has declined in recent years and has not only been affected by the slowing US economy but the area has also been negatively affected by the recent Deepwater Horizon oil spill. However, there is some evidence that the economy has stabilized. As of November 30, 2010, the unemployment rate for Chambers County was 10%, which is above the national average of 9.3%. The City of Anahuac is the county seat of Chambers County, Texas. The local economy is centered in service-related jobs, retail trade, construction, finance, real estate, and insurance. The largest employers include Exxon/Mobile, Independent School Districts for Anahuac, Barbers Hill and East Chambers, a Wal-Mart Distribution Center, and Jeri's Seafood, Inc.

Liberty and Harris Counties have also been negatively impacted by similar economic conditions. Liberty County's unemployment rate is the highest of the three counties at 11.1% as of November 30, 2010. The City of Liberty is the county seat of Liberty County and the local economy is centered in education, manufacturing, construction, retail trade, and service-related jobs. Houston continues to be ranked as the fourth largest city in the United States with a population of 2.3 million and is the county seat of Harris County. Houston has close ties to the energy sector and has suffered as a result of the moratorium on off-shore drilling. However, the city has benefited from a broad industrial base which also includes manufacturing, aeronautics, transportation, and health care sectors. While Harris County's unemployment rate has increased similarly over the past few years, at 8.6% it is below the national average as of November 30, 2010.

Banking competition in the Houston AA is strong consisting of larger bank branches, small banks in the rural areas, insurance offices, investment firms, and credit unions. ANB is ranked second in deposit market share, with 21% of the Chambers County deposit base as of June 30, 2010, behind Prosperity Bank's 42% share of the market. Other deposit competitors are Security State Bank, Wells Fargo, National Association, and CommunityBank of Texas, National Association.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

The LTD ratio is more than reasonable given the bank's size, financial condition, and AA credit needs. ANB's quarterly average LTD ratio was 58% over the 22 quarters since the last CRA examination, with a quarterly low of 43% and a quarterly high of 71%. The LTD ratio compares favorably with other community banks of similar size, location, and product offerings. ANB ranks second when compared with five similarly situated banks serving the Houston AA. The other five banks had quarterly average ratios of 53% and ranged from 32% to 89% for the same time period.

## Lending in Assessment Area

A substantial majority of loans were originated in the Houston AA, and the overall level of lending in the Houston AA exceeds the standards for satisfactory performance. As noted in the table below, approximately 89% of the number of loans and 83% of the dollar amount of loans were originated in the Houston AA. The bank's performance is shown in the following table:

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	45	90.00	5	10.00	50	3,014	85.58	508	14.42	3,522
Home Improvement	11	91.67	1	8.33	12	650	90.28	70	9.72	720
Refinancing	37	92.50	3	7.50	40	2,979	94.21	183	5.79	3,162
Business	17	80.95	4	19.05	21	515,876	79.63	131,964	20.37	647,840
Consumer	18	85.71	3	14.29	21	145,939	97.29	4,064	2.71	150,003
<b>Totals</b>	<b>128</b>	<b>88.89</b>	<b>16</b>	<b>11.11</b>	<b>144</b>	<b>668,458</b>	<b>83.01</b>	<b>136,789</b>	<b>16.99</b>	<b>805,247</b>

*Source: Loan data reported under HMDA; U.S. Census data*

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

Overall, the distribution of loans reflects a reasonable penetration among households and families of different income levels and businesses of different sizes, and meets the standard for satisfactory performance. We reviewed a sample of consumer and business loans originated in the Houston AA. We also reviewed performance of 100% of the HMDA loans originated during the evaluation period.

### Residential Real Estate

The distribution of residential real estate loans reflects a good penetration among borrowers of different incomes given the demographics. We analyzed residential real estate lending using borrower income compared to the median family income levels according to U.S Census Bureau information. The 2009 median family income for the Houston AA was \$63,800. A low-income family in this Houston AA has income up to \$31,899 annually. We considered the level of difficulty for the bank to originate residential real estate loans to families with incomes at or below this level. We also considered that ANB does not provide longer term, fixed rate mortgages, but offers alternative balloon notes with five year maturities.

Lending to low- and moderate-income borrowers reflects reasonable penetration for home mortgage products, and excellent penetration for refinancing home mortgage products for moderate-income borrowers. The bank’s performance is shown in the following table:

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in the Houston AA</b>								
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
Home Purchase	23.27	<b>20.00</b>	18.49	<b>17.78</b>	21.01	20.00	37.23	42.22
Home Improvement	23.27	<b>18.18</b>	18.49	<b>18.18</b>	21.01	18.18	37.23	45.45
Refinancing	23.27	<b>10.81</b>	18.49	<b>18.92</b>	21.01	21.62	37.23	48.65

Source: Loan data reported under HMDA; U.S. Census data.

### Consumer

The distribution of consumer loans demonstrates a reasonable penetration. We analyzed consumer lending using borrower income compared to the median household income level according to U.S Census Bureau information. The 2008 through 2010 median household income for the AA was \$44,551. A low- and moderate-income household in this AA has income up to \$22,275 and \$35,640 annually, respectively. In reaching a conclusion, we also considered the Houston AAs poverty level of 12%, which makes lending to borrowers of this income level difficult. The bank’s performance is shown in the following table:

<b>Table 2A - Borrower Distribution of Consumer Loans in the Houston AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	24.40	<b>16.67</b>	16.63	<b>11.11</b>	19.13	22.22	39.83	22.22

Source: U.S. Census data. Gross income information was unavailable on 27.78% of the loans.

### Small Business

Lending to small businesses with gross revenues equal to or less than \$1 million is excellent and exceeds the characteristics of the AA for both number and dollar amount of loans. We compared the bank's loan originations to information about the size of businesses for each AA according to Dunn & Bradstreet information. The bank's performance is shown in the following table:

Table 2B - Borrower Distribution of Loans to Businesses in the Houston AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	74.44	2.86	22.69	100%
% of Bank Loans in AA by #	<b>82.35</b>	5.88	11.77	100%
% of Bank Loans in AA by \$	<b>94.38</b>	2.91	2.71	100%

Source: Dunn and Bradstreet data. Totals for % of AA Business are 99.99% due to rounding.

### Geographic Distribution of Loans

The overall geographic distribution of loans exceeds the standards for satisfactory performance given the demographics of the Houston AA. We reviewed a sample of residential real estate, consumer, and business loans originated in the Houston AA. The Houston AA consists of 31 CTs of which none are low-income CTs and 11 are moderate-income CTs. Since there are no low-income CTs, the analysis was based on geographic distribution in moderate-income CTs.

### Residential Real Estate

The geographic distribution of residential real estate reflects an excellent dispersion. We compared loan originations to the percentage of the Houston AA owner-occupied housing based on 2000 U.S. Census information. Lending in moderate-income CTs exceeded the standard for satisfactory performance for home purchases and home improvement loans. Performance in moderate-income CTs reflected reasonable penetration for home refinance loans. The bank's performance is shown in the following table:

Table 3 - Geographic Distribution of Residential Real Estate Loans in the Houston AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans						
Home Purchase	0.00	<b>0.00</b>	30.70	<b>42.22</b>	39.72	22.22	29.59	35.56
Home Improvement	0.00	<b>0.00</b>	30.70	<b>54.55</b>	39.72	45.45	29.59	0.00
Refinancing	0.00	<b>0.00</b>	30.70	<b>21.62</b>	39.72	54.05	29.59	24.32

Source: Loan data reported under HMDA; U.S. Census data. Totals for refinancing are 99.99% due to rounding.

**Consumer**

The geographic distribution for consumer loans shows an excellent dispersion and exceeds the standard for satisfactory performance for moderate-income CTs. The bank’s performance is shown in the following table:

Table 3A - Geographic Distribution of Consumer Loans in the Houston AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0.00	<b>0.00</b>	29.86	<b>50.00</b>	45.33	44.44	24.81	5.56

Source: U.S. Census data.

**Small Business**

Geographic distribution of business loans reflects a reasonable dispersion. Lending in moderate-income CTs is slightly below the characteristics of the Houston AA and meets the standard for satisfactory performance. The bank’s performance is shown in the following table:

Table 3B - Geographic Distribution of Loans to Businesses in the Houston AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	0.00	<b>0.00</b>	24.66	<b>23.53</b>	42.63	64.71	32.71	11.76

Source: Dunn & Bradstreet data.

**Community Development Investments**

We reviewed records of the bank’s investments and donations that benefit low- and moderate-income individuals, organizations, or CTs. A donation was made to the West Chambers County Chamber of Commerce for a food bank. In addition, ANB provides backpacks to the MET Head Start Program and donates toys during the annual Christmas toy drive, both which target low- to moderate-income individuals.

**Community Development Services**

Vice President & Branch Manager Williams provides financial education training to students at the local high school, which is located in a moderate-income CT.

The bank’s branch in Winnie provides the full range of the bank’s products and services in a moderate-income CT.

### **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.