



PUBLIC DISCLOSURE

April 4, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

American Bank, National Association
Charter Number 17319
200 West Highway 6, Waco, TX 76712

Office of the Comptroller of the Currency
225 E. John Carpenter Freeway, Suite 900, Irving, TX 75062

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.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Outstanding.

Major factors that support this Satisfactory rating include:

- The bank's loan-to-deposit (LTD) ratio is reasonable.
- A majority of loan originations and purchases are within the bank's assessment area (AA).
- The distribution of residential and business loans to borrowers of different income levels exhibits a reasonable penetration.
- The bank's geographic distribution of residential and business loans to low- and moderate-income (LMI) census tracts reflects an excellent dispersion.
- The overall level and responsiveness of community development (CD) lending, investments, and services is excellent.

Scope of Examination

This Performance Evaluation (PE) of American Bank, National Association (ABNA or bank) assesses the bank's performance using interagency Intermediate Small Bank (ISB) procedures, which include a Lending Test and a Community Development Test. The evaluation period ranges from April 21, 2012, the date of the prior PE, through April 4, 2016, the date of the current evaluation. The Lending Test concentrates on activity from January 1, 2014 to December 31, 2015. In evaluating the bank's lending performance, the bank's primary loan products include business and residential lending with an emphasis on small business lending. We placed the most weight for rating the borrower distribution of loans on small business lending considering the bank's strategic focus is business lending. Our consideration of CD activity (loans, investments, and services) extended from the prior PE date of April 21, 2012 to our current evaluation date of April 4, 2016.

In our evaluation of the distribution of loans, we utilized the demographics and geographies related to the 2010 Census as it applies to the years 2014 and 2015.

This evaluation is based on accurate data as follows:

- We tested Home Mortgage Disclosure Act (HMDA) data for residential mortgages reported by the bank to verify the accuracy of data used for this evaluation. We found the data reliable to use for this evaluation.

- To evaluate ABNA’s performance, we selected a random sample of 20 business loans that were originated during this timeframe. ABNA purchased no business loans during the evaluation period. We used the entire population of originated business loans to complete Table 1 in this PE.
- We also verified CD loans, investments, and services submitted by management to ensure they met the regulatory definition for CD. We excluded any items that did not meet the definition or purpose of CD.

We did not consider the activities of affiliates in this evaluation.

Description of Institution

ABNA is an independent, full-service bank based in Waco, Texas. In addition to its main office, ABNA operates two branch offices. All of the facilities are located in Waco. The bank opened its downtown branch in October 2013. The previous CRA evaluation, dated April 21, 2012, assigned a “Satisfactory” rating.

American National Bancshares, Inc., a one-bank holding company, owns 100 percent of ABNA. There are no legal or financial impediments to ABNA’s ability to meet the credit needs of its AA. Although the bank offers a full range of loan and deposit services, its primary business focus is commercial and commercial real estate loans.

As of December 31, 2015, net loans were 64 percent of ABNA’s total assets of \$424 million. The following table summarizes the bank’s loan portfolio at December 31, 2015.

American Bank, National Association Loan Portfolio Summary		
Loan Category	Dollar Volume (in thousands)	Percentage
Commercial and Commercial Real Estate	136,359	50%
Residential Real Estate	84,286	31%
Construction	28,270	10%
Governmental Entities	9,754	4%
Consumer, Agriculture and Other	13,423	5%
Total Loans	272,092	100%

Source: December 31, 2015 Report of Condition.

The bank’s lending strategy continues to be the origination of commercial and commercial real estate loans to small and midsize businesses and business owners, and the origination of residential loans categorized by purchase, refinance, and improvement.

ABNA’s main office and branches are the primary delivery system for retail products and services, and are located in areas that make them accessible to bank customers. The bank’s six ATMs supplement the branches. The downtown branch is located in a

moderate-income census tract (CT or tract) that is situated between two low-income tracts. The Bellmead branch is in a middle-income geography that is adjacent to two low-income CTs. Although the main office is located in an upper-income tract, it is in close proximity to a moderate-income geography. The main office and the Bellmead branch each have multi-lane drive-through facilities with an ATM. The drive-through operations offer extended weekly and Saturday hours.

ABNA’s banking programs and hours allow the bank to deliver needed banking and credit services to LMI areas and customers as well as small business owners throughout the bank’s AA. ABNA offers on-line banking through its web site, www.ambankwaco.com. Telephone banking in English and Spanish is available. ATM services are also available in English and Spanish. Each bank location has employees who speak Spanish.

Description of Assessment Area

The bank has delineated McLennan County as its AA. The 2010 U.S. Census designated the Waco, Texas MSA as consisting solely of McLennan County. Pursuant to the 2013 Office of Management and Budget (OMB) changes, the U.S. Census Bureau added Falls County to the Waco, Texas MSA effective January 1, 2014. The bank did not add Falls County to its AA. McLennan County is located in Central Texas. Waco is its largest city and the county seat. Waco, approximately 90 miles south of Dallas/Fort Worth and 100 miles north of Austin, is centrally located on Interstate 35.

See the following table that summarizes the demographic data for McLennan County.

Demographic Information for McLennan County AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts (CT)/BNAs)	51	13.73	19.61	31.37	31.37	3.92
Population by Geography	234,906	12.16	19.18	29.24	37.62	1.80
Owner-Occupied Housing by Geography	49,856	5.49	14.97	30.03	49.49	0.02
Business by Geography	16,026	4.99	20.57	30.96	42.89	0.59
Family Distribution by Income Level	55,570	22.12	17.33	19.47	41.08	0.00
Households by Geography	82,998	13.01	19.34	30.02	37.61	0.03
Median Family Income		53,712	Median Housing Value		100,223	
FFIEC Adjusted Median Family Income for 2015		55,300	Unemployment Rate (February 2016 BLS)		McLennan County 3.7%	
Households Below Poverty Level		19.74%				

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 US Census, 2015 FFIEC updated MFI, and Bureau of Labor Statistics.

Description of AA

The AA is made up of 51 CTs, consisting of seven low-income geographies, 10 moderate-income CTs, 16 middle-income tracts, 16 upper-income geographies, and two tracts that are not income-classified. Per the 2015 Federal Financial Institutions Examination Council (FFIEC) report, none of McLennan County's middle-income census tracts are classified as either distressed or under-served. The bank has properly defined its AA in accordance with the technical requirements of the CRA regulation. The AA consists of whole CTs, does not arbitrarily exclude LMI CTs, and includes the CTs where the bank offices are located. The AA meets requirements of the regulation and does not reflect illegal discrimination. ABNA has its main office and both branches in this AA. One branch is in a moderate-income CT situated between two low-income CTs and the other is in a middle-income geography that is adjacent to two low-income CTs.

The AA population has maintained a healthy growth rate. The county's population continues to grow and is now 234,906 according to the 2010 Census. This is up 10 percent over the 2000 Census of 213,517 and 24 percent over the 1990 Census of 189,123. Waco offers opportunities for professional development and workforce training with three higher education institutions including Baylor University, McLennan Community College and Texas State Technical College. Residents of Waco enjoy several museums, regional and neighborhood parks, two symphonies, several theaters, and an AZA-accredited zoo.

The city of Waco is a diverse economy, with no industry representing more than 20 percent of the market. Professional, government, and healthcare industry sectors have posted strong growth in the area. The city's below-average cost of living and proximity to the DFW metroplex, the cities of Austin and San Antonio, and the Houston area draws skilled talent to high-tech jobs. Major employers in the Waco area include Providence Health Center, Baylor University, Wal-Mart, Waco Independent School District, L-3 Communications (Aerospace), Hillcrest Baptist Medical Center, and the City of Waco.

Waco's economic stability is enhanced by the diversity of its economic base. The strength of this diversity was evident as the unemployment rate of 3.7 percent remained below the state and national averages of 4.3 percent and 4.9 percent, respectively, as of February 2016. Poverty levels in the AA, however, are higher than national and state averages. The 2010 Census data reports that 20 percent of the area households live below poverty levels. Almost 40 percent of families have annual incomes that place them in the LMI categories. Accordingly, LMI geographies account for one-third of the CTs in the AA based on the 2010 Census.

In evaluating the borrower distribution of home loans in the AA, we noted that 14.1 percent of the families in the AA (2010 Census) are below the poverty level. In addition, we considered the average age of the housing stock and the median housing value in the AA. According to the 2010 Census, the average age of the housing stock was 39

years for low-income CTs with a median housing value of \$51,556, and 47 years with a median housing value of \$69,437 for moderate-income tracts. Less than 21 percent of the housing units in the low-income CTs are owner occupied. This figure increases to 41 percent for the moderate-income geographies. Older housing often has higher maintenance costs compared to new housing stock and frequently requires significant repairs to bring dwelling up to code requirements. These older houses are often less energy efficient, resulting in higher utility costs, which can increase home ownership costs. These additional factors and costs negatively affect the ability of LMI individuals to qualify for mortgage loans.

The Greater Waco Chamber of Commerce is actively involved in the economic future of Waco and shaping the community into a viable and desirable home for businesses and families. The Chamber is strategically investing in economic and community development initiatives to transform Waco and the Brazos riverfront area. Efforts to transform the local workforce, economic development opportunities, quality of life and the local landscape takes a collaborative effort among the Chamber, city of Waco, community partners, businesses, local universities, and many more. To assist with this initiative, the Chamber of Commerce has launched numerous campaigns to generate sufficient funds for this much-needed cause. The area banking industry is committing time and resources to address these issues. ABNA pledged \$100,000 from 2012 to 2016 to the Chamber of Commerce through the *Momentum Waco* campaign. Additionally, bank staff is involved in other Chamber and other CD organizations' initiatives to transform Waco.

The city of Waco has created tax increment financing zones for the purpose of facilitating the revitalization and development of the core of the city and along the Brazos River Corridor. The city of Waco facilitates downtown events to help promote downtown businesses and facade grants to improve the appearance of downtown buildings. A large number of business and different organizations are situated within the tax increment reinvestment zone (TIRZ) located in downtown Waco.

The AA is a competitive banking environment filled with larger regional banks, community banks, and credit unions. The FDIC market share report as of June 30, 2015, indicates that 25 institutions operate 59 branches within the bank's AA. ABNA ranks fourth among the total group of banks with a deposit market share of 7.98 percent. First National Bank of Central Texas ranks first with a 13.72 percent deposit market share and Wells Fargo Bank, National Association ranks second with a 12.70 percent deposit market share. In addition, 14 credit unions are based in Waco.

A community contact interview conducted at a recent CRA evaluation of another local financial institution identified the lack of affordable housing for purchase by LMI families and individuals. For houses that need rehab work, once the labor is performed, the prospective LMI buyers can no longer afford the property. The contact further stated that local banks could do a better job assisting previously unbanked customers with their banking and credit needs.

Discussions with bank management, a review of the PEs of competing banks, and other sources indicate an ongoing need for start-up business loans to entrepreneurs and financing existing small businesses for working capital and expansion. It was noted that the lending activity of non-profit CD organizations such as NeighborWorks has reduced the overall demand for affordable housing loans for LMI individuals as NeighborWorks is subject to more relaxed mortgage lending standards than area commercial banks. Alternatively, FHA now has more strenuous underwriting criteria and guidelines in place that make it more difficult for lower income borrowers to obtain financing to purchase homes.

Conclusions with Respect to Performance Tests

LENDING TEST

The bank’s performance under the Lending Test is rated “Satisfactory”.

Loan-to-Deposit Ratio

The bank’s LTD ratio is reasonable given the bank’s size, location, local competition, and the credit needs of the AA. This determination is based on the quarterly average LTD ratio of 68.46 percent from June 30, 2012 through December 31, 2015. During this evaluation period, the bank’s LTD ratio ranged from a low of 62.18 percent to a high of 75.51 percent.

Management considers the banks shown in the following table to be similarly situated institutions (SSIs). All of the SSIs offer similar loan products and have branch locations in the AA.

The quarterly average LTD ratio for each SSI is listed in the following table. Please note that no ranking is intended or implied.

Loan-to-Deposit Ratios		
Financial Institutions	Total Assets \$ (000’s) (As of 12/31/2015)	Average Loan-to- Deposit Ratio
American Bank, National Association	\$424,240	68.46%
First National Bank of Central Texas	\$779,671	76.44%
Community Bank and Trust	\$419,722	76.66%
Texas First State Bank	\$386,508	38.27%
Central National Bank	\$789,560	81.10%

Source: Institution Reports of Condition from June 30, 2012 to December 31, 2015.

Lending in Assessment Area

A majority of the number and dollar amount of the bank's loans were originated or purchased inside its AA. As depicted in Table 1 below (\$000s omitted), 90 percent of the number and 86 percent of the dollar amount of loans were originated or purchased inside the AA. Of the number of the business loan originations or purchases, 89 percent occurred inside the AA.

Table 1 - Lending in McLennan County AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	174	90.16	19	9.84	193	23,907	88.64	3,065	11.36	26,972
Home Improvement	31	91.18	3	8.82	34	2,277	95.79	100	4.21	2,377
Home Refinance	72	90.00	8	10.00	80	16,340	89.60	1,897	10.40	18,237
Business	596	89.49	70	10.51	666	71,993	83.52	14,202	16.48	86,195
Total	873	89.72	100	10.28	973	114,517	85.60	19,264	14.40	133,781

Source: Data reported under HMDA; aggregate bank loan data.

As noted in the Scope of Examination section, we used the entire population of HMDA and business loans originated during the evaluation period to complete Table 1.

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

The distribution of loans to borrowers of different income levels is reasonable. The distribution of home mortgage and business loans reflects reasonable penetration among borrowers of different income levels and businesses of different sizes.

As detailed in Table 2 below, in each loan category, the bank's 1-4 family real estate lending (HMDA reportable loans) to LMI borrowers lags the percentage of families in those income levels. The bank's distribution of home purchase and improvement loans to moderate-income borrowers is below the demographic, but still considered reasonable when considering the above average poverty rate in the AA and advanced age of the housing stock. In addition, low-income applicants typically have difficulty qualifying for residential loans so a reduced level of lending is expected. Please see the housing-related discussion in the Description of Assessment Area section of this PE. The bank's overall distribution of residential loans to LMI borrowers is reasonable.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	22.12	2.36	17.33	6.30	19.47	18.90	41.08	72.44
Home Improvement	22.12	0.00	17.33	4.17	19.47	4.17	41.08	91.67
Home Refinance	22.12	3.85	17.33	0.00	19.47	15.38	41.08	80.77

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

As noted in the Scope of Examination section, in our analysis, we considered a sample of 20 business loans ABNA originated inside the AA from January 1, 2014 through December 31, 2015. As illustrated in Table 2A below, the percentage of loans by number to small businesses (70 percent) is less than but still comparable to the percentage of small businesses in the AA (78 percent). A small business is defined as a business with revenues of \$1 million or less. Although the percentage by the dollar volume of loans (84 percent) is above the demographic, we placed the most weight on the number of loans originated or purchased to arrive at a rating.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	77.87	4.52	17.61	100%
% of Bank Loans in AA by #	70.00	30.00	0.00	100%
% of Bank Loans in AA by \$	84.16	15.84	0.00	100%

Source: Loan sample; Dun and Bradstreet data.

Geographic Distribution of Loans

ABNA’s geographic distribution of residential and business loans to LMI CTs reflects excellent dispersion and demonstrates a pattern indicative of an institution seeking to service the credit needs of its AA. We did not identify any material or unexplained gaps in our analysis of lending in the AA.

In Table 3 below, for each category except one, the percent of the bank’s HMDA reportable loans compared to the percent of owner occupied housing in the LMI census tracts is excellent.

Table 3 - Geographic Distribution of Residential Real Estate Loans in McLennan County AA								
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
Home Purchase	5.49	12.64	14.97	10.92	30.03	21.84	49.49	54.60
Home Improvement	5.49	9.68	14.97	16.13	30.03	29.03	49.49	45.16
Home Refinance	5.49	11.11	14.97	15.28	30.03	18.06	49.49	55.56

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

Table 3A below illustrates the extent to which the bank’s lending in the low-income CTs (10 percent of business loans) surpasses the percent of businesses located in those geographies (5 percent). The volume of ABNA’s business loans in the moderate-income tracts (30 percent) also compares favorably to the percent of businesses in those geographies (21 percent). This is an excellent distribution of business loans to the LMI CTs in the AA.

Table 3A - Geographic Distribution of Loans to Businesses in McLennan County 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
Businesses	4.99	10.00	20.57	30.00	30.96	20.00	42.89	40.00

Source: Loan sample; Dun and Bradstreet data.

Responses to Complaints

ABNA has not received any complaints regarding its CRA performance during the evaluation period.

COMMUNITY DEVELOPMENT TEST

ABNA’s responsiveness to the community development needs of the AA through CD lending, investments, and services is excellent. Our conclusion is based on the bank’s level of activity and performance context.

ABNA demonstrates an excellent responsiveness to the CD needs of the AA through the use of CD loans, qualified investments, and CD services considering the bank’s capacity and financial condition, and the need and availability of such opportunities in the AA. The bank centers its CD efforts primarily in qualified lending and services.

As noted previously, the evaluation period starts at the date of the last CRA evaluation period (April 21, 2012) and goes to the date of the current CRA evaluation (April 4, 2016).

Number and Amount of Community Development Loans

The level of CD lending in the AA reflects an excellent responsiveness to the CD needs of the AA.

ABNA originated and/or renewed 13 CD loans in the AA during the evaluation period totaling approximately \$15.1 million, or 39 percent of tier 1 capital. Ten loans totaling \$14.3 million provide affordable housing for LMI individuals and families. The AA has a need for affordable housing for LMI individuals and families that the bank is helping to fill. A \$406,000 loan provides working expenses for a facility in downtown Waco that assists the homeless. In conjunction with a local economic development corporation, ABNA originated a \$118,000 loan to construct a commercial building under a program to facilitate the creation and retention of permanent jobs for LMI workers. Finally, the bank advanced \$230,000 to a municipality as part of a city plan to stabilize its low-income geographies that account for half of its CTs.

Broader Statewide Area

As it is part of a loan with other participating lenders, ABNA extended \$10.0 million to the Texas State Technical College (TSTC) Foundation. The TSTC Foundation, based in Waco, is the only state-supported technical college system in Texas. With an average tuition of \$5,500, TSTC provides career and technology education for primarily LMI post-high school students. TSTC management closely tracks present and projected employer needs while providing training and associate degrees to residents to meet local job demand. The subject loan is to construct a new campus in Red Oak in Ellis County for a two-year technical school that is part of the TSTC system. Over 60 percent of the students from the adjacent Red Oak High School are economically disadvantaged¹. These and other similarly situated area students comprise the target enrollment at TSTC.

Number and Amount of Qualified Investments

The level of qualified investments in the AA reflects an adequate responsiveness to the CD needs of the AA.

During the evaluation period, the bank made no equity or debt investments in the AA. ABNA made 69 separate qualifying donations totaling \$211,000 to CD organizations in the AA. This accounted for 0.54 percent of tier 1 capital. Some of the significant donations include: \$29,000 to United Way – McLennan County Chapter, \$20,000 to

¹ The 2013 CRA Interagency Q&As state that participation in the U.S. Department of Agriculture's National School Lunch Program may be used as a proxy for determining LMI students at a specific school in the absence of family income data.

YMCA of Central Texas that benefits primarily LMI youth through its after-school and summer programs, and \$100,000 to the *Momentum Waco* campaign. The campaign's goals include developing the Brazos riverfront and revitalizing downtown Waco, improving public schools that will in part attract and retain families and workers to the area, providing targeted training for future and re-employed workers, and growing the range of higher education degrees in the greater Waco area.

Broader Statewide Area

In the prior period, ABNA committed \$500,000 to Valesco Commerce Street Capital, LP, a small business investment company. Valesco promotes economic development by financing lower-middle market businesses across the south central U.S. in exchange for subordinated debt and/or equity. ABNA's investment has a geographic focus primarily in Texas including areas in proximity to the bank's AA. During the current evaluation period, Valesco invested in the following Texas companies: *Adams Flavors, Foods & Ingredients, LLC, Gonzales*; *all goods, llc, Arlington*; *Allison Publications, LLC, Dallas*; and *Enforcement Video, LLC, Allen*.

During the prior period, the bank funded \$59,000 of its \$500,000 commitment to Valesco. During the current review period, ABNA invested an additional \$148,000. The bank is also responsible for reimbursing specific expenses to Valesco on a quarterly basis.

Extent to Which the Bank Provides Community Development Services

During the evaluation period, ABNA exhibited an excellent responsiveness to the CD service needs of the AA. ABNA continues to meet the CD service needs of the AA through volunteer activities by its directors, officers, and employees, many on a continuing basis to the organizations. Bank staff served as directors and committee members, and provided strategic planning, loan underwriting, fundraising, budgeting, and marketing expertise.

During the evaluation period, directors, officers, and employees of ABNA donated over 3,000 qualified hours to a variety of community organizations that encompass three CD criteria: community service, economic development, and revitalization or stabilization. Examples include:

- Serving as president of the advisory board of the Waco chapter of the Salvation Army
- Serving as a board member and loaned executive to the McLennan County chapter of the United Way
- Providing financial literacy classes at "partnered" local schools where a majority of the students are LMI
- Serving as a committee member and fundraiser for *Prosper Waco* that is a community impact initiative aimed at lowering Waco's poverty rate that exceeds both the state and national averages, and

- Serving on the advisory board and working as an economic development committee member to assist in developing and implementing the operating objectives of the *Momentum Waco* campaign, a public-private coalition whose goal is to stabilize and revitalize the Brazos riverfront and revitalize downtown Waco resulting in the creation of permanent jobs and an increase in the city's tax base.

Responsiveness to Community Development Needs

The bank demonstrated excellent responsiveness to meeting the CD needs of the community. The primary emphasis for the AA was placed on CD loans and CD services. The distribution of branches in the AA is readily accessible to all portions of the LMI population in the AA. One branch is in a moderate-income CT situated between two low-income CTs and the other is in a middle-income CT that is adjacent to two low-income geographies.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), in determining a CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance.

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