



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 8, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**American National Bank
Charter Number 18303**

**1606 N. Sarah Dewitt Drive
Gonzales, TX 78629**

**Comptroller of the Currency
San Antonio North Field Office
10101 Reunion Place Boulevard, Suite 402
San Antonio, Texas 78216-4160**

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.

American National Bank's lending performance reflects a satisfactory response to community credit needs. Factors in our assessment include:

- The loan to deposit ratio is reasonable, given the bank's size, financial condition, and assessment area credit needs.
- A majority of loans are to borrowers within the bank's assessment areas (AA).
- The distribution of loans reflects a satisfactory geographical dispersion throughout the AA.
- The distribution of loans reflects, given the demographics of the AA, a reasonable penetration among individuals of different income levels and businesses of different sizes.
- There were no consumer complaints with respect to the bank's CRA performance during this evaluation period.

DESCRIPTION OF INSTITUTION

American National Bank (ANB) is a community bank with \$174 million in total assets. The bank is a wholly owned subsidiary of ANB Bancshares, Inc., a locally owned, one-bank holding company. The bank accounts for virtually all assets of the holding company. ANB's main office is in Gonzales, Texas. It also has two branch offices; one in Luling, and another in Lockhart, Texas. An ATM is located at each office. The bank also plans to open a branch in San Marcos, Texas in the near future.

As of September 30, 2003, net loans represent 61% of the bank's total assets. The bank is primarily a commercial and agricultural lender but also originates a large volume of residential and consumer loans. The bank is an active participant in government guaranteed loan programs. At the time of our review, the bank had \$22 million in Farm Service Agency guaranteed loans and \$4 million in Small Business Administration loans. A summary of the loan portfolio as of September 30, 2003 is shown in the following table.

Loan Category	\$ (000)	%
Commercial Real Estate Loans	20,327	19%
Commercial Loans	12,719	12%
Agricultural and Agricultural Real Estate	40,408	37%
Residential Real Estate Loans	21,404	20%
Consumer Loans	12,852	12%
Total	107,710	100%

There are no legal or financial circumstances that impede the bank’s ability to help meet the credit needs in its AA. ANB’s previous CRA rating as of June 28, 1999 was “satisfactory.” There have been no changes to the bank’s corporate structure.

DESCRIPTION OF ASSESSMENT AREA (AA)

The bank has designated Gonzales County and adjoining Caldwell County as its AA. The area meets the requirements of the regulation and does not arbitrarily exclude low-or moderate-income geographies.

Gonzales County is a non-metropolitan county in south central Texas. It is one of the most agriculturally productive counties in Texas. The economy is centered on poultry and beef production, food processing and services. Major employers include the Gonzales school district as well as several agricultural (particularly poultry) production and food processing firms. The county includes six census block numbering areas. Three areas are defined as middle income and three are moderate income.

Caldwell County is part of the Austin Metropolitan Statistical Area (MSA). It includes the cities of Lockhart and Luling where the bank’s two branches are located. The county consists of seven census tracts. One census tract is defined as low income, three are defined as moderate income and three are middle income. The economy has historically been centered in agriculture but is becoming more diverse. Major employers include the Lockhart Independent School District, an area hospital in Luling and a private correctional facility. Caldwell County continues to experience dramatic population growth with parts of the county becoming “bedroom communities” for persons working in Austin or San Marcos. Roughly half of working residents work *outside* Caldwell County. The county’s population grew by 22% in the 1990s.

Economic conditions in the overall area remain stable. The two counties include several community banks of various sizes as well as branches of large regional banks including Wells Fargo and OmniBank. In the combined area, 34% of families are defined as low income, 20% are moderate income, 22% are middle income and 24% are upper income. Approximately 28% of the population in Gonzales County and 25% in Caldwell County are below the poverty level. Unemployment is relatively low in both areas with an unemployment rate of 4.70% in Gonzales County and 2.66% in Caldwell County.

The following table provides demographic information for the designated AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	50,822
Number of Families (2000 Census)	11,229
Number of Households (2000 Census)	15,030
Geographies	
Number of Census Tracts/BNAs	13
% Low-Income Census Tracts/BNAs	8%
% Moderate-Income Census Tracts/BNAs	46%
% Middle-Income Census Tracts/BNAs	46%
% Upper-Income Census Tracts/BNAs	0%
<i>Median Family Income (MFI)</i>	
1990 Census MFI	30,452
2000 HUD-Adjusted MFI	47,731
2001 HUD-Adjusted MFI	51,362
2002 HUD-Adjusted MFI	54,946
Economic Indicators	
Unemployment Rate*	4.7%
2000 Median Housing Value	61,198
% of Households Below Poverty Level	26.00%

* Gonzales County

As part of our examination we contacted the Gonzales Chamber of Commerce and Agriculture. The contact indicated the economy is “relatively flat” but stable in Gonzales. The contact also indicated banks in the community (including ANB) have been supportive in working with the Chamber in drawing businesses to the area and in providing credit to small businesses.

SAMPLING/COMPARISON INFORMATION

Our analysis focused on the bank’s primary product lines: commercial/small business loans, agricultural loans, residential real estate loans and consumer loans. For *Lending to Borrowers of Different Incomes and Businesses of Different Sizes* and the *Geographical Distribution of Loans* analysis, we excluded loans that were made outside of the AA. Our analysis included an examination of lending distributions by number as well as the dollar amount of originations. All loans in our sample were originated since the previous CRA examination.

Loan-to-Deposit Ratio

The bank’s loan to deposit ratio is reasonable, given the bank’s size, financial condition and the AA’s credit needs. During the 17 quarters ending September 30, 2003, the bank’s average loan to deposit ratio was 71%. The ratio is comparable if not higher than area banks with offices in the AA, which ranged from a high of 70% for First Lockhart National Bank to a low of 51% for Nixon State Bank. The following chart compares ANB’s average quarterly ratio to other community banks with assets under \$500 million and headquartered in the AA.

Institution	Assets (\$000) as of 09/30/03	Average LTD Ratio
American National Bank	173,830	71%
First-Lockhart National Bank	107,041	70%
Citizens State Bank – Luling	51,075	61%
Nixon State Bank	56,303	52%

Lending in Assessment Area

ANB makes a majority of its loans to borrowers in the AA. Our loan sample of residential real estate, commercial, agricultural and consumer loans found 83% of loans (by number) in the sample were made to borrowers in the AA. The following table reflects the bank's lending in and out of the AA by type of loan sampled.

TOTAL LOANS REVIEWED								
LOAN TYPE	In the AA				Out of the AA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
1-4 Family Residential	179	83%	\$9,964	72%	37	17%	\$3,855	28%
Consumer	37	93%	\$309	94%	3	7%	\$20	6%
Commercial/ Agriculture	38	76%	\$2,374	64%	12	24%	\$1,357	36%
Total Reviewed	254	83%	\$12,647	71%	52	17%	\$5,232	29%

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

The distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes given the demographics of the AAs. Our sample of consumer loans, in particular, reflects a strong penetration of lending to low income borrowers. Forty-percent of consumer loans sampled were to low income borrowers compared to 33% of households in the AA having low incomes. Consumer lending to moderate income borrowers was comparable to proportions within the AA. The table below reflects the distribution of our consumer lending sample.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	33		19		18		30	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2000 to 2003	40	22	18	20	20	18	22	40

Our analysis of borrower income levels for residential real estate loans found 16% of loans sampled were to low income borrowers and another 15% was to moderate income individuals. It reflects that the bank *does* make residential loans to low income families, but at a proportionally lower level compared to the percentage of low income families in the AA. The table below details the income distribution of the loans in our residential loan sample.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	34		20		22		24	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2000	1	1	3	1	4	2	11	10
2001	6	3	7	4	8	5	14	21
2002	9	6	5	4	8	8	24	35
Total	16	10	15	9	20	15	49	66

Of the 30 commercial loans sampled, 26 or 87%, were to businesses with annual revenues of less than \$1 million. Although this is somewhat lower than the demographics of businesses in the AA, the bank makes a large portion of commercial loans to very small businesses. By number, half of the commercial loans sampled were to businesses with revenues less than \$100 thousand.

REVENUE DISTRIBUTION OF LOANS TO BUSINESS		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	96	4
% of Bus. Loans in AA #	87	13
% of Bus. Loans in AA \$	68	32

As reflected on the following table, the bank's record of lending to farms with annual revenues less than \$1 million is comparable to the distribution of such farms in the AA.

REVENUE DISTRIBUTION OF LOANS TO FARMS		
Farm Revenues	≤ \$1,000,000	>\$1,000,000
% of AA Farms	93	7
% of Farm loans in AA #	95	5
% of Farm loans in AA \$	96	4

Geographic Distribution of Loans

The geographical distribution of the bank's lending activities reflects a reasonable dispersion throughout the AA. The geographic distribution of consumer loans in the AA was also found to be reasonable. 1990 Census information shows 7% of households live in the one low income census tract, comparable to the distribution reflected on the table below.

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	7		47		46		0	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2000 to 2003	10	7	33	32	57	61	0	0

Our analysis found the residential lending effort centered in middle income and to a lesser extent, moderate income areas. This closely follows the proportion of owner occupied housing in the area. Residential growth has been strong in Caldwell County where several middle income census tracts are located. As reflected in the table below, 1990 Census data indicates only 6% of owner-occupied housing in the AA is located in the low income census tract. Our sample suggests this is comparable to the proportion of residential lending in the area.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	6		45		49		0	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2000	0	0	9	5	9	9	0	0
2001	3	2	11	8	21	23	0	0
2002	3	3	20	19	24	31	0	0
Totals	6	5	40	32	54	63	0	0

ANB's lending to businesses is centered in middle income areas and to a lesser extent, moderate-income areas. This is to be expected. Both the city of Gonzales and the city of Lockhart (where a large portion of the AA's businesses are located) are centered in areas defined as middle income.

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	10%		50%		40%		0	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2000 to 2003	0	0	27	23	73	77	0	0

Responses to Complaints

No CRA-related consumer complaints were received since the previous evaluation.

Fair Lending Review

An analysis of HMDA and four years' of public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1999. We found no evidence of illegal discrimination or other illegal credit practices.