



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 17, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

American National Bank
Charter Number 18303

1606 N. Sarah Dewitt Drive
Gonzales, TX 78629-2700

Office of the Comptroller of the Currency

San Antonio - South Field Office
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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 National Bank's (ANB) lending performance reflects a satisfactory response to community credit needs in its assessment areas (AAs). Factors that support the overall rating include:

- The average loan-to-deposit (LTD) ratio of 67 percent over the prior 22 quarters is reasonable given the institution's size, financial condition, and credit needs of the AAs.
- A majority of loans, 79 percent of the number and 67 percent of the dollar volume, are in the institution's AAs.
- The distribution of borrowers reflects, given the demographics of the AAs, reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the AAs.

SCOPE OF EXAMINATION

ANB was evaluated under the Small Bank examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities.

Our review covered the time period from December 8, 2003, the date of the prior Performance Evaluation, to February 17, 2009, the date for the current evaluation. We identified commercial and agricultural/farm loans as the bank's primary loan products. To evaluate ANB's lending performance, we selected a sample of 80 loans originated during this time period. The sample consisted of 20 loans each for the two primary loan products in each of the two AAs.

DESCRIPTION OF INSTITUTION

ANB is a full-service intrastate bank headquartered in Gonzales, Texas. ANB was chartered in 1984 and is a wholly owned subsidiary of ANB Bancshares, Inc., a one-bank holding company. As of December 31, 2008, ANB had total assets of \$218 million and Tier 1 leverage capital of \$19 million. The bank has four offices: the main office in Gonzales, Texas; one branch in Luling, Texas; one branch in Lockhart, Texas; and another branch in San Marcos, Texas. All four locations have a walk-in teller lobby, a drive-up motor bank, and an automated teller machine (ATM). As of December 31, 2008, ANB reported net loans of \$117 million. Net loans and leases represent 54 percent of total assets. The loan portfolio composition is shown in the following table:

LOAN PORTFOLIO SUMMARY BY LOAN PRODUCT	
DECEMBER 31, 2008	
LOAN CATEGORY	% OF OUTSTANDING DOLLARS
Commercial	43%
Agricultural/Farm	36%
Residential	14%
Consumer	6%
Obligations of States and Political Subdivisions	1%
Total	100%

Source: December 31, 2008 Consolidated Report of Condition

The bank was rated “Satisfactory” at the prior CRA examination dated December 8, 2003. No legal impediments or other factors hinder the ability of ANB to meet the credit needs of its AAs.

DESCRIPTION OF ASSESSMENT AREAS

ANB has designated two AAs: Gonzales County and Hays and Caldwell Counties. These AAs are described below.

Gonzales County Assessment Area

The Gonzales County AA is comprised entirely of Gonzales County. This AA is not in a metropolitan statistical area (MSA). Gonzales County has six census tracts. One is designated moderate-income, four are designated middle-income, and one is designated upper-income. The middle-income tracts were identified as being distressed due to poverty and population loss. The AA meets the requirements of the regulation. There are no low-income geographies in Gonzales County.

Gonzales County is located approximately 80 miles east of San Antonio, Texas. Economic conditions are currently stable; however, the current drought is starting to impact the agricultural industry in the area. The largest employers in the county include the local school district, Holmes Foods, and J-B Foods. The following table contains a summary of demographic information for this AA.

DEMOGRAPHIC INFORMATION FOR GONZALES COUNTY AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	6	N/A	17%	66%	17%
Population by Geography	18,628	N/A	20%	57%	23%
Owner-Occupied Housing by Geography	4,691	N/A	19%	56%	25%
Businesses by Geography	1,571	N/A	14%	69%	17%
Farms by Geography	149	N/A	13%	69%	18%
Family Distribution by Income Level	4,933	21%	19%	21%	39%
Household Distribution by Income Level	6,803	26%	17%	19%	38%
Census Median Family Income (MFI)		\$36,380	Median Housing Value		\$52,401
HUD – Adjusted MFI: 2008		\$43,600	Households Below Poverty Level		20%
HUD – Adjusted MFI: 2007		\$41,800	Unemployment Rate		2%
HUD – Adjusted MFI: 2006		\$43,100			

Source: 2008 Business Geodemographic Data; 2000 U.S. Census Data

This Office conducted a community contact with a member of a local community organization in

Gonzales County. The contact indicated the local financial institutions do a good job of serving the community.

Competing banks in Gonzales County include other locally owned community banks, a branch of a credit union headquartered in San Antonio, a branch of a larger regional bank, and a branch of a much larger bank with offices across the United States.

Hays and Caldwell Counties Assessment Area

The Hays and Caldwell Counties AA is comprised of all of Caldwell County and the eastern portion of Hays County. It is a part of the Austin-Round Rock MSA. This AA includes 15 census tracts. One census tract is designated low-income, eleven are moderate-income, and three are middle-income. There are no census tracts designated upper-income. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

San Marcos, the largest city in Hays County, is located approximately 50 miles northeast of San Antonio, Texas. Caldwell County is located approximately 70 miles northeast of San Antonio, Texas. Economic conditions are currently stable. The largest employers in Hays County include Texas State University, outlet malls located in San Marcos, and the local school district. For Caldwell County, the largest employers are the local school districts and area hospitals. The following table contains a summary of demographic information for this AA.

DEMOGRAPHIC INFORMATION FOR HAYS AND CALDWELL COUNTIES AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	15	7%	73%	20%	N/A
Population by Geography	77,403	13%	62%	25%	N/A
Owner-Occupied Housing by Geography	13,972	6%	64%	30%	N/A
Businesses by Geography	5,917	9%	69%	22%	N/A
Farms by Geography	178	8%	62%	30%	N/A
Family Distribution by Income Level	16,190	31%	25%	22%	22%
Household Distribution by Income Level	26,650	37%	21%	19%	23%
Census Median Family Income (MFI)		\$59,438	Median Housing Value		\$77,899
HUD – Adjusted MFI: 2008		\$69,100	Households Below Poverty Level		20%
HUD – Adjusted MFI: 2007		\$69,300	Unemployment Rate		5%
HUD – Adjusted MFI: 2006		\$69,600			

Source: 2008 Business Geodemographic Data; 2000 U.S. Census Data

This Office conducted a community contact with a member of a local community organization in Hays County. The contact identified development and retention of businesses as a need for the area. The contact also cited loans to small businesses as a credit need in the community. The contact also said that local financial institutions have been meeting those needs.

There are several banks in Hays County including other community banks, larger regional banks, and branches of much larger banks with offices across the United States. Competing banks in Caldwell County include other locally-owned community banks and branches of larger regional banks.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

ANB demonstrated satisfactory performance in meeting the credit needs of its AAs. We focused our review on the primary lending products originated since the previous CRA examination: commercial loans and agricultural/farm loans. The sample of loans was selected to determine the extent of lending within the AAs, the distribution of loans by borrower income level, and the geographic distribution of loans within the AAs.

Loan-to-Deposit Ratio

ANB's quarterly average LTD ratio over the past 22 quarters is 67 percent. This is reasonable given the institution's size, financial condition, and AAs credit needs. The LTD ratio is also reasonable when compared to the other institutions in the AAs. ANB ranks fourth out of six similarly-situated financial institutions in the AAs. The following table shows ANB's LTD ratio compared to other competing financial institutions in the AAs.

INSTITUTION COUNTY AND CITY OF BANK HEADQUARTERS	ASSETS AS OF 12/31/08 (\$000s)	AVERAGE QUARTERLY LTD RATIO 09/30/03 – 12/31/08
Lone Star Bank, S.S.B Lavaca County, Moulton, Texas	\$159,202	96%
First-Lockhart National Bank Caldwell County, Lockhart, Texas	\$128,200	78%
Citizens State Bank of Luling Caldwell County, Luling, Texas	\$53,108	70%
American National Bank Gonzales County, Gonzales, Texas	\$217,962	67%
Ozona National Bank Crockett County, Ozona, Texas	\$174,791	55%
Nixon State Bank Gonzales County, Nixon, Texas	\$68,207	46%

Source: Quarterly Consolidated Report of Condition Information

Lending in Assessment Areas

A majority of loans are in ANB's AAs. Overall, 79 percent of the number and 67 percent of the dollar volume of loans sampled were in the AAs. The following table reflects the distribution of loans, by number and dollar volume that originated in and out of the AAs.

LENDING IN HAYS AND CALDWELL COUNTIES, AND GONZALES COUNTY AAS										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	15	75	5	25	20	2,330	89	293	11	2,623
Agricultural	17	85	3	15	20	873	71	353	29	1,226
Totals	32	80	8	20	40	3,203	83	646	17	3,849

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

The distribution of borrowers reflects, given the demographics of the AAs, reasonable penetration among individuals of different income levels and businesses and farms of different sizes.

Performance in the Gonzales County Assessment Area

The borrower distribution of loans in the Gonzales County AA is reasonable.

Commercial Loans

The distribution of loans to businesses reflects a reasonable penetration among businesses of different sizes in Gonzales County. Seventy-five percent of the commercial loans in our sample were made to small businesses. Small businesses are businesses with gross annual revenues of \$1 million dollars or less. Although the sample shows loans to small businesses significantly exceed the demographic data, 50 percent of businesses did not report revenue data or it was unavailable. Of AA businesses that report income, 94 percent reported gross annual revenues of less than \$1 million. The following table shows the distribution of commercial loans among businesses in the AA based on our sample of loans.

BORROWER DISTRIBUTION OF LOANS TO BUSINESSES IN GONZALES COUNTY AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	47	3	50	100%
% of Bank Loans in AA by #	75	25	0	100%
% of Bank Loans in AA by \$	62	38	0	100%

Source: Loan sample; 2008 Business Geodemographic data

Agricultural/Farm Loans

The distribution of loans to farms reflects reasonable penetration among farms of different sizes in Gonzales County. Ninety percent of the bank's agricultural loans originated during the loan sampling period were made to small farms. This compares to the 94 percent of small farms in the AA reporting gross annual revenues of less than \$1 million. The following table shows the distribution of agricultural/farm loans among farms in the AA based on our sample of loans.

BORROWER DISTRIBUTION OF LOANS TO FARMS IN GONZALES COUNTY AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	94	3	3	100%
% of Bank Loans in AA by #	90	10	0	100%
% of Bank Loans in AA by \$	97	3	0	100%

Source: Loan sample; 2008 Business Geodemographic data

Performance in the Hays and Caldwell Counties Assessment Area

The borrower distribution of loans in the Hays and Caldwell Counties AA is reasonable.

Commercial Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes in the Hays and Caldwell Counties AA. Eighty percent of the commercial loans in our sample were made to small businesses. This compares to 64% of AA businesses reporting gross annual revenues of less than \$1 million. Although the sample shows loans to small businesses exceed the demographic data, 33 percent of businesses did not report revenue data. Of the AA businesses that reported income information, 96 percent reported gross annual revenues of less than \$1 million. The following table shows the distribution of commercial loans among businesses in the AA based on our sample of loans.

BORROWER DISTRIBUTION OF LOANS TO BUSINESSES IN HAYS AND CALDWELL COUNTIES AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	64	3	33	100%
% of Bank Loans in AA by #	80	20	0	100%
% of Bank Loans in AA by \$	73	27	0	100%

Source: Loan sample; 2008 Business Geodemographic Data

Agricultural/Farm Loans

The distribution of loans to farms reflects excellent penetration among farms of different sizes in the Hays and Caldwell Counties AA. Our sample of farm loans showed 100 percent of the loans matched the demographic data of 100 percent being small farms. The following table shows the distribution of agriculture/farm loans among farms in the AA based on our sample of loans.

BORROWER DISTRIBUTION OF LOANS TO FARMS IN HAYS AND CALDWELL COUNTIES AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	100	0	0	100%
% of Bank Loans in AA by #	100	0	0	100%
% of Bank Loans in AA by \$	100	0	0	100%

Source: Loan sample; 2008 Business Geodemographic Data

Geographic Distribution of Loans

The distribution of loans reflects a reasonable dispersion in the bank's AAs. There were no conspicuous gaps in lending identified within ANB's AAs.

Performance in the Gonzales County Assessment Area

The geographic distribution of loans in the Gonzales County AA is reasonable.

Commercial Loans

The geographic distribution of commercial loans in Gonzales County is reasonable. About 14 percent of businesses in the AA are located in the one moderate-income census tract. Our sample of loans was comparable with ten percent of the commercial loans made to businesses located in the one moderate-income census tract. As shown in the table below, the remaining commercial loans in our sample were split evenly among businesses located in middle- and upper-income census tracts.

GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES IN GONZALES COUNTY AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Commercial	N/A	N/A	14	10	69	45	17	45

Source: Loan sample; 2008 Business Geodemographic data

Agricultural/Farm Loans

The geographic distribution of loans to farms reflects reasonable dispersion in the Gonzales County AA. Five percent of the agricultural/farm loans sampled were in the moderate-income census tract compared to 13 percent of farms located in this census tract. This moderate-income census tract is in the city of Nixon, which is best served by the one and only bank in the area, Nixon State Bank. The following table shows the geographic distribution of agricultural/farm loans in the AA based on our sample of loans.

GEOGRAPHIC DISTRIBUTION OF LOANS TO FARMS IN GONZALES COUNTY AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans
Farms	N/A	N/A	13	5	69	60	18	35

Source: Loan sample; 2008 Business Geodemographic data

Performance in the Hays and Caldwell Counties Assessment Area

The geographic distribution of loans in the Hays and Caldwell Counties AA is reasonable.

Commercial Loans

The geographic distribution of commercial loans in the Hays and Caldwell Counties AA is reasonable. We found 5 percent and 70 percent of our loan sample were extended in low- and moderate-income areas, respectively. This compares to 9 percent and 69 percent of businesses located in those areas.

GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES IN HAYS AND CALDWELL COUNTIES AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Commercial	9	5	69	70	22	25	N/A	N/A

Source: Loan sample; 2008 Business Geodemographic data

Agricultural/Farm Loans

The geographic distribution of loans to farms reflects reasonable dispersion in the Hays and Caldwell Counties AA. Ninety percent of the agricultural/farm loans sampled were in moderate-income census tracts, which exceeds the demographic data. There were no agricultural loans in the low-income census tract. However, the towns of Buda and Kyle cover the majority of the low-income census tracts. This portion of the AA is mostly residential and/or commercial. As shown in the table below, only eight percent of farms in the AA are located in the one low-income census tract.

GEOGRAPHIC DISTRIBUTION OF LOANS TO FARMS IN HAYS AND CALDWELL COUNTIES AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans
Farms	8	0	62	90	30	10	N/A	N/A

Source: Loan sample; 2008 Business Geodemographic data

Responses to Complaints

ANB has not received any consumer complaints related to its CRA performance during this 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.