



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

April 19, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Anderson
Charter Number 7337**

**State Highway 90 at FM 1774
Anderson, TX 77830**

**Comptroller of the Currency
Houston Field Office
1301 McKinney Street, Suite 3410
Houston, TX 77010**

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 First National Bank of Anderson, Texas has a satisfactory record of meeting credit needs within the community, as evidenced by the following:

- The distribution of loans to businesses and for real estate, of different income levels, meets the standard for satisfactory performance and reflects a reasonable penetration of business and real estate loans of different sizes and is representative of the demographics of the bank's assessment area;
- The bank's lending performance meets the standard for satisfactory performance. A substantial majority of The First National Bank of Anderson's loans have been originated within the assessment area;
- The bank's average loan-to-deposit ratio meets the standard for satisfactory performance, given the bank's size, financial condition, and the assessment area credit needs;
- The bank's assessment area meets the requirements of the CRA regulation;
- There have been no consumer complaints received during the current evaluation period;
- There is no evidence of illegal discrimination.

DESCRIPTION OF INSTITUTION

First National Bank of Anderson (FNBA) is a full service commercial bank with total assets, and total deposits, as of March 31, 2004, of \$84,608 thousand and \$76,257 thousand, respectively. Total Loans as of the same date were \$45,890 thousand. The bank has been in operation for 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 forty-six (46) shareholders. There are no subsidiaries or other affiliates of FNBA.

The bank offers a full range of lobby and drive-in services from its single location 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 Assessment Area. The bank does not have Automated Teller Machines, nor does it provide online services from personal computers. It does provide limited alternative delivery of services through a telephone voice response system. This system enables customers to access their accounts to check balances, transfer funds between accounts, and make loan payments.

The bank's primary business emphases, as measured by the proportion of its loan portfolio that each represents, are residential real estate, commercial and industrial, agricultural, and consumer, with each area accounting for approximately one quarter of the total loan portfolio. This relative

weighting is little changed since the prior evaluation, given minor variations from one calendar quarter to the next.

There are no legal, financial, or other factors that would impede the ability of FNBA to help meet the credit needs of its Assessment Area.

The last two CRA Evaluations were conducted as of March 19, 1999 and July 18, 1995. Both evaluations resulted in ratings of "Satisfactory".

DESCRIPTION OF GRIMES COUNTY, TEXAS

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

Grimes County is approximately ninety (90) miles northwest of downtown Houston, and thirty-five (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. Within the last several years, oil and natural gas production has gained in importance in Grimes County. Significant drilling activity continues throughout the county. Some interest is also noted in the 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 (2) 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.

The Assessment Area of Grimes County is divided into seven (7) census tracts, formerly designated as Block Numbering Areas (BNAs). Five (5) of these tracts are considered Middle-Income tracts, as the median family income for each tract is between 80% and 120% of the median family income for rural Texas. One (1) census tract is considered Moderate-Income, with a median family income of 50% to 80% of the aforementioned state median family income, and one (1) tract is considered Upper-Income, with median family income of 120%, or more, of the stated median. There are no Low-Income Tracts in Grimes County. Of particular note, the single Moderate-Income tract lists a population of only thirteen (13) and has a median family income that is 78.21% of the state median, just below the 80% threshold for a Middle-Income tract. Adjacent to it is the county's sole Upper-Income tract, which lists a population of 1,245, but only eighteen (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 Assessment Area consists almost exclusively of Middle-Income tracts. The county boasts population of 23,552 of which roughly 12% are institutionalized (state prison population). Of the 7,714 households in the county, 1,337, or 17%, are listed below the poverty level.

Five (5) other financial institutions operate in Grimes County. They are the Bank of Navasota, N.A., First State Bank of Bédias, Community State Bank of Houston (through its branch office in Iola), Wells Fargo Bank Texas, N.A. (through its branch in Navasota), and Guaranty Bank, F.S.B. (also through its branch in Navasota). The only two that are significant lenders are the Bank of Navasota, N.A., and the First State Bank of Bédias. FNBA is the dominant depository bank with a deposit market share of 28.71%, as of June 30, 2003, followed by Bank of Navasota, N.A. with 24.73%, First State Bank of Bédias with 17.98%, Guaranty Bank, with 16.68%, Wells Fargo Bank Texas, N.A., with 9.84%, and Community State Bank with 2.07%.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is good, and meets, or exceeds, the standard for satisfactory performance, when compared to other commercial banks within the Assessment Area and areas immediately surrounding. For the eighteen (18) calendar quarters ending March 31, 2004, FNBA's loan-to-deposit ratio averaged 63.62%. By way of comparison, First State Bank of Bédias reported a loan-to-deposit ratio of 54.69% as of June 30, 2003 and 56.32% as of December 31, 2003. For the eighteen calendar quarters ending December 31, 2002, the Bédias bank averaged 50% loans to deposits. The Bank of Navasota, N.A. reported net loans to total deposits of 52.15% at year-end 2003 and 50.18% as of year-end 2002. Information available on six (6) other commercial banks in rural areas outside of Grimes County, but with similar economic and demographic characteristics indicates average loan-to-deposit ratios ranging from a low of 28% to a high of 71%.

Lending in Assessment Area

The First National Bank of Anderson meets the standard for satisfactory performance for lending within its assessment area, both in number and in dollar volume.

Out of a sample of sixty (60) loans originated during this assessment period, twenty (20) were for business purposes and twenty (20) were real estate loans. As indicated in the table, on the following page, the bank's record of lending within its Assessment Area of Grimes County is satisfactory for each category. Based upon the sample taken, some 80% of the number of real estate loans and 65% of the number of business loans were originated to borrowers within Grimes County. By dollar volume, some 80.78% of the dollars of real estate loans and 61.32% of the dollars of business loans from this sample were to borrowers within the Assessment Area.

Lending in Grimes County										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Real Estate	16	80.00	4	20	20	1,012,409	80.78	240,904	19.22	1,253,313
Business	13	65.00	7	35	20	868,300	61.32	547,746	38.68	1,416,046
Totals	29	72.50	11	27.50	40	1,880,709	70.46	788,650	29.54	2,669,359

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

From this same sample, it was determined that the bank meets the standards for satisfactory performance for lending to business borrowers of different sizes and individual borrowers of different income levels.

For the year 2003, business geo-demographic data lists 108 farm related businesses and 1,149 non-farm related businesses. Of the 1,149 non-farm related businesses, 356 are businesses for which no income data is available. Of the remaining 793 non-farm related businesses for which income information is available, 748, or 94.33%, report gross annual revenues of less than \$1 million. In total, in Grimes County there are 894 farm related and non-farm related businesses for which income information is available. Of these, 805, or 90.04%, report annual gross revenues of less than \$500 thousand.

Borrower Distribution Of Small Loans To Businesses		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	748	45
% of Bank Loans in AA #	85.00	15.00
% of Bank Loans in AA \$	49.34	50.66

As noted in the table, above, out of a sample of 20 business loans, some 85% were to businesses with revenues of less than \$1 million. These loans, however, represented slightly less than half of the dollars of loans. It should be noted that this analysis was based in part upon a presumption of business size. For those businesses for which there was no current credit information, loan size was used as a surrogate.

Geographic Distribution of Loans

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

Responses to Complaints

The First National Bank of Anderson has received no CRA related complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

No Fair Lending Examination was performed in concert with this evaluation. We have found no evidence of illegal discrimination or other illegal credit practices in this or any other examination of The First National Bank of Anderson.