



## **PUBLIC DISCLOSURE**

April 11, 2016

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

Anahuac National Bank  
Charter Number 16625

801 S. Ross Sterling  
Anahuac, TX 77514

Office of the Comptroller of the Currency

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 conclusion is based on the following:

- The loan-to-deposit (LTD) ratio is reasonable. Since the prior Community Reinvestment Act (CRA) Performance Evaluation, the quarterly LTD ratio averaged 64.16 percent.
- A substantial majority of the bank's lending is inside the assessment area (AA) by number and dollar amount of loans originated. Of the number of business and residential mortgage loans originated during the evaluation period, 90 percent by number and 92 percent by dollar amount were within the 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.
- The geographic distribution of loans reflects excellent dispersion among families and households of different income levels and businesses of different sizes.
- There were no CRA related complaints during the evaluation period.

**SCOPE OF EXAMINATION**

We completed a full-scope review of Anahuac National Bank (ANB)'s Community Reinvestment Act (CRA) activities. The bank operates in two assessment areas including the Houston assessment area (AA) and the Beaumont AA. Although the bank is in the Beaumont AA, there were not enough loans originated or refinanced to make a meaningful analysis and therefore, we focused on the Houston AA.

We evaluated ANB under the Small Bank CRA examination procedures, which include 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 focused on the bank's primary loan product both by number and by dollar amount of loans. As of December 31, 2015, by dollar amount, business loans represented 40.20 percent of total loans and leases and residential mortgage loans represented 29.84 percent. By number, consumer loans represented 45.16 percent of total loans and leases.

For the lending analysis, we selected a statistically valid sample using bank reports on business and consumer loan originations from January 1, 2013 through December 31, 2015. We used the sample to determine the bank's record of lending in the AA, geographic distribution of originated loans, and the distribution of loans by 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 20 business loans and 20 consumer loans in total for both 2014 and 2015. The 2013 sample consisted of 20 consumer loans and 19 business loans, which represented 100 percent of originated business loans. We also conducted data integrity testing on the Home Mortgage Disclosure Act (HMDA) Loan Application Register (LAR) to determine the reliability of the reported loan information. We found the information to be reliable and therefore, when applicable, we used 100 percent of the residential mortgage loan data for years 2013, 2014, and 2015, which equated to 84 loans totaling approximately \$11 million.

## **DESCRIPTION OF INSTITUTION**

Anahuac National Bank (ANB) is a full-service community bank headquartered in Anahuac, Texas, Chambers County. ANB is wholly owned by, Anahuac Bancshares, Inc., a one-bank holding company. As of December 31, 2015, ANB's assets totaled approximately \$112.7 million, net loans were \$63.9 million, and the tier 1 leverage capital ratio was 10.57 percent. ANB has three (3) branches located in its assessment area (AA), in Chambers County.

The main branch is located in a middle-income census tract (CT) at 801 S. Ross Sterling, Anahuac, TX 77514. The second branch, Barbers Hill Banking Center, is located in an upper-income CT at 11402 Eagle Drive in Mont Belvieu, TX 77523. The third branch, East Chambers County Bank is located in a middle-income CT at 810 Highway 124, Winnie, TX 77665. There were no branch openings or closings during the review period. Each branch operates onsite automated teller machines (ATM) and provides drive-up teller services. The hours of operations meet the needs of the community with branch hours Monday through Saturday.

ANB offers a number of deposit products and services to help meet the needs of the community, and low-and-moderate income individuals. Products include checking and savings accounts, ATM cards, debit cards, safe deposit boxes, certificates of deposit, online banking, bill pay services and a toll free 24-hour telephone information line. Loan products offered to meet the needs of the community include consumer loans and real estate mortgages, commercial loans, and credit cards.

ANB was rated "Satisfactory" at the last CRA performance evaluation dated January 24, 2011.

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

The two assessment areas (AAs), the Houston AA and the Beaumont AA, meet the requirements of the regulation and do not arbitrarily exclude low- and moderate-income geographies. ANB operates in two AAs consisting of whole census tracts (CTs) located in Chambers, and portions of Liberty, Harris, and Jefferson Counties. ANB has all 3 branches located in Chambers County. The June 2015 FDIC Deposit Market Share Data reports ANB deposit market share at .04 percent.

The Houston AA is part of the Houston-The Woodlands-Sugarland Metropolitan Statistical Area (MSA). The entire Houston MSA includes ten counties: Harris, Fort Bend, Montgomery, Brazoria, San Jacinto, Galveston, Liberty, Waller, Chambers, and Austin. The Beaumont AA is part of the Beaumont-Port Arthur MSA. The entire Beaumont MSA includes four counties: Hardin, Jefferson, Newton, and Orange.

ANB operates in 6 CTs in Chambers, 5 CTs in Liberty, 23 CTs in Harris, and 3 CTs in Jefferson County. According to the business demographic data by income for 2015, the bank's 37 AAs include 1 low-income CT at 2.70 percent, 11 moderate-income CTs at 29.73 percent, 18 middle-income CTs at 48.65 percent, 6 upper-income CTs at 16.22 percent and 1 CT with no income data at 2.70 percent.

### **Houston AA (Harris, Chambers, and Liberty Counties)**

#### Harris County

Harris County is the most populous county in Texas and the third most populous county in the U.S. The county seat is Houston, the largest city in Texas and fourth-largest city in the US. Other surrounding cities include Baytown, Friendswood, Katy, League City, Missouri City, Pearland, and Stafford.

Houston is located near Buffalo Bayou. Houston is home to the Texas Medical Center, the world largest concentration of health care and research institutions, and National Aeronautics and Space Administration NASA (Johnson Space Center), where the Mission Control Center is located. Houston is known as the "Energy Capital of the World" with more than 3.7 thousand energy related firms located in the Houston MSA.

Houston's economy is broad based in energy, manufacturing, aeronautics, and transportation. It leads in health care sectors, and building of oilfield equipment. The Port of Houston ranks first in the U.S. in international waterborne tonnage handled and second in total cargo tonnage. The University of Houston System is a major part of the economy attracting more than \$1.1 billion annually and 24,000 local jobs and produces 12 thousand new graduates each year.

Major employers include Exxon Mobile, Halliburton, Shell Oil, M.D. Anderson Hospital, Memorial-Hermann Health Care Hospitals, Wal-Mart, United Airlines, Administaff, along with the hotel/leisure industry, local independent school districts, universities, and public entities. According to the Texas Workforce Commission, Houston has more jobs than 35 U.S. states.

The population of Harris County's is 4.5 million according to the 2015 U.S. Census Estimates. Median household income was \$53 thousand. The population living below the poverty level is 18.4 percent. The unemployment rate was 4.8 percent as reported in April 2016 by U.S. Bureau of Labor Statistics. The median housing unit is \$133 thousand and 370 thousand housing units in the county.

Banking in the Houston AA is extremely competitive. Competition includes large national banks, regional banks, small community banks, and non-bank financial institutions. The five largest competitors are J.P. Mortgage, Wells Fargo Bank, N.A., Bank of America National Association (N.A.), Capital One, N.A., and Amegy Bank N.A.

### Chambers County

Chambers County is located within the Galveston Bay Area on the shores of Trinity Bay and East Bay and the central and eastern portions of the county are rural areas. Beaumont, Port Arthur and the eastern portion of the Houston MSA surround Chambers County. The county seat is Anahuac situated on the eastern shore of Trinity Bay and located within the east Houston metropolitan area. Anahuac was designated the "Alligator Capital of Texas" in 1989 and hosts an annual alligator festival. Other nearby cities include Mont Belvieu, Baytown, Beach City, and Cove.

The manufacturing sector accounts for 24 percent of Chambers County jobs, more than any other industry and exceeds totals regionally and within the state. Major employers in the area are the Anahuac Independent School District (ISD), Barbers Hill ISD, Bayer Corporation, CEG Staffing Services, Cryogenic Vessel Alternatives and East Chambers ISD. The County's unemployment rate is 5.2 percent as of April 2016 according to U.S. Bureau of Statistics.

Chambers County's top industries are manufacturing, education services, construction, transportation and warehouse, retail trade, and professional, scientific, and management. National resources in the region include salt domes, industrial sand, pine and hardwood timber, oil, gas, and sulfur. Rivers, canals, bayous, reservoirs and lakes cover more than 4,500 acres of the county. These areas are used for water supply, drainage outlets, shipping facilities, wildlife and recreation.

The population of Chambers County is 38 thousand according to the 2015 U.S. Census Estimates. The county has grown steadily in the past few years due primarily to availability of land, a low crime rate, good school districts, and east access to the metropolitan area. The median household income totals \$72 thousand and 10.9 percent live below the poverty line. The median housing unit is \$145 thousand and there are 13.4 thousand housing units in the county.

### Liberty County

Liberty County located along US. Highway 90 halfway between Beaumont and Houston is divided by the Trinity River. The city of Liberty is the county seat. Liberty is the largest city in the county and the oldest town in the state of Texas. The city has a twin of the Liberty Bell in Philadelphia, Pennsylvania. Other nearby cities includes Hardin, Mont Belvieu, Dayton, Cleveland and Ames.

Natural resources include lignite deposits, iron ore, sulfur, brick, clay, salt, lime, oil, gas and glass. Crops such as rice, cotton, grains, potatoes, and corn grow well due to the subtropical climate. Top industries for employment include educational services, sales, office occupations, health care, manufacturing, and social assistance. Top employers include Liberty ISD, Cities of Liberty and Dayton, AMICO-Klemp, Liberty Regional Medical Center, Brookshire Brothers, and Wal-Mart. Two prisons, private and federal, are located within the county and provide a number of employment opportunities,

The population of Liberty County is 79 thousand according to the 2015 U.S. Census Bureau. Median household income is \$47 thousand. The population living below the poverty level is 18.3 percent. The unemployment rate was 7.1 percent as reported in April 2016 by U.S. Bureau of Labor Statistics.

### **Beaumont AA (Jefferson County)**

#### Jefferson County

Jefferson County is located on the plains of the Texas Gulf Coast in the southeastern part of the state. The southern part of the county is largely marshland, much of it contained within Sea Rim State Park and reaching to the Gulf of Mexico. The county seat is the city of Beaumont. Beaumont is the largest city in Jefferson County with a population of 118 thousand; making it the twenty-fourth most populous city in the state of Texas. Other nearby cities includes Port Neches, China, Nederland, Groves, Nome and Taylor Land.

The petrochemical industry is Beaumont's primary economic sector, while rice processing and shipbuilding are significant economic elements for the region. Another significant element of the city and surrounding region is the Port of Beaumont. The Port of Beaumont is situated 84 miles east of Houston and 270 miles west of New Orleans. The port is accessible to the Gulf of Mexico and the Intracoastal Waterway via the federal maintained Sabine-Neches Ship Channel, 42 miles upstream from the Gulf.

Beaumont's leading employment sectors are healthcare, educational services, construction, accommodation and food services, chemicals, professional, scientific, and technical services, and government. Federal, state and local prisons also provide a number of jobs to the community. Beaumont's major employers include, Exxon Mobil Oil, Lamar University, City of Beaumont, Beaumont Independent School District, Jefferson County, Christus St. Elizabeth Hospital, and Texas Department of Transportation.

The population of Jefferson County is 254 thousand accordingly to the 2015 US Census estimates. The county's median household income was \$42 thousand. The population living below the poverty level is 21.2 percent. The unemployment rate was 6.3 percent as reported in April 2016 by U.S. Bureau of Labor Statistics. The median housing unit is \$96 thousand and there are 106 thousand housing units in the county.

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

ANB's performance under the Lending Test is **Satisfactory**.

Although the bank has two AAs, there was insufficient loan volume in the Beaumont AA to perform a meaningful analysis, therefore, our analysis for borrowers of different incomes and business of different sizes and geographic distribution was analyzed using loans originated only in the Houston AA.

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

The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and AA credit needs. ANB's quarterly average (LTD) ratio was 64 percent over the 20 quarters since the last CRA examination compared to situated institutions (peer group banks) that had an average LTD ratio of 68 percent. The LTD ratio for the 5 similarly size peer group banks with total assets ranging from \$102 million to \$166 million, headquartered in counties in ANB's AA ranged from a low average of 43 percent to a high average of 95 percent. ANB ranks third when compared with five similarly situated banks serving the Houston AA.

### **Lending in Assessment Area**

A substantial majority of the bank's lending is inside the AA by number and by dollar amount of originated loans. Of the number of business, consumer and residential mortgage loans originated in the evaluation period, 90 percent were in the AA by number. By dollar amount, 92 percent of loans were within the AA. The following table details the bank's lending inside and outside the AA by number and dollar amount.

Table 1 - Lending in AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	59	92	5	8	64	7,674	94	499	6	8,173
Home Improvement	4	100	0	0	4	256	100	0	0	256
Refinance	15	94	1	6	16	2,293	89	276	11	2,569
Commercial	33	85	6	15	39	3,341	89	413	11	3,754
Consumer	36	90	4	10	40	939	90	109	10	1,048
Totals	147	<b>90</b>	16	10	163	14,503	<b>92</b>	1,297	8	15,800

Source: HMDA, CRA loans

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

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

#### Residential Mortgage Loans

The bank’s penetration of residential loans to low-and moderate-income families was lower than the AA census characteristics but is considered reasonable due to the bank’s penetration in low-income CTs. We analyzed home purchase loans as the bank had too few home improvement and refinanced home mortgage loans to perform a meaningful analysis.

During the evaluation period, for purchased loans, the bank’s penetration of low-income families was 11.86 percent compared to the percent of owner occupied units located in low-income CTs, which was 22.93 percent. Penetration of moderate-income families was 6.78 percent compared to the 17.56 percent of the owner occupied units located in moderate-income CTs. The bank’s performance is shown in the following table:

Table 2 - Borrower Distribution of Residential Real Estate Loans in AA 2013-2015								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Home Purchase	22.93	<b>11.86</b>	17.56	<b>6.78</b>	20.57	10.17	38.95	71.19

Source: HMDA loans

## Business Loans

Lending to small businesses with gross revenues equal to or less than \$1 million is reasonable. The bank's penetration of 2014-2015 loans by number is somewhat lower than the percentage of area businesses with revenues less than \$1 million and by number of loans, is near to the percentage of businesses in the AA that reported gross annual revenues of \$1 million or less.

The bank had stronger performance in 2013. By number of loans, the bank's distribution of loans exceeded the level of such businesses operating in the AA and by dollar amount was near to the 2010 Census data. The banks performance is shown in the following tables:

Table 2A - Borrower Distribution of Loans to Businesses in AA-2014-2015				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unknown	Total
% of AA Businesses	78.37	3.84	17.79	100%
% of Bank Loans in AA by #	<b>66.67</b>	33.33	0.00	100%
% of Bank Loans in AA by \$	<b>56.38</b>	43.62	0.00	100%

Source: Dun and Bradstreet data; CRA loans

Table 2B - Borrower Distribution of Loans to Businesses in AA-2013				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unknown	Total
% of AA Businesses	78.37	3.84	17.79	100%
% of Bank Loans in AA by #	<b>86.67</b>	13.33	0.00	100%
% of Bank Loans in AA by \$	<b>71.11</b>	28.89	0.00	100%

Source: Dun and Bradstreet data; CRA loans

## Consumer Loans

The distribution of consumer loans reflects reasonable penetration. In 2014-2015, although the bank did not have any penetration in low-income CTs, the performance in moderate-income CTs exceed the demographic comparator. The bank's performance in 2013 was somewhat lower than demographic comparator for both low-and moderate-income CTs. The banks performance is shown in the following tables:

Table 2A - Borrower Distribution of Consumer Loans in AA-2014 - 2015								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of #of Loans	% of AA Households	% of #of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	24.38	<b>0.00</b>	17.12	<b>55.00</b>	18.58	35.00	39.92	10.00

Source: US Census Data.

Table 2B - Borrower Distribution of Consumer Loans in AA-2013								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of #of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	24.38	<b>12.50</b>	17.12	<b>12.50</b>	18.58	31.25	39.92	43.75

Source: US Census Data.

## Geographic Distribution of Loans

Overall, the geographic distribution of loans reflects excellent dispersion among families and households of different income levels and businesses of different sizes.

### Residential Mortgage Loans

The distribution of residential mortgage loans reflects reasonable dispersion. During the evaluation period, the bank had too few home improvement and refinanced home mortgage loans to perform a meaningful analysis. For residential home purchase loans, the geographic distribution of residential mortgage loans reflects reasonable penetration. Although the bank did not have any penetration in low-income CTs, distribution within moderate-income CTs was 49.15 percent and exceeded census data of 21.78 percent for the AA’s owner occupied housing. The bank’s performance is shown in the following table:

Table 3 - Geographic Distribution of Residential Real Estate Loans in AA 2013-2015								
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 Purchasing	0.21	<b>0.00</b>	21.78	<b>49.15</b>	51.44	33.90	26.57	16.95

Source: HMDA loans

### Small Business

Geographic distribution of business loans reflects excellent penetration. In years 2014-2015 and 2013, the bank did not have any dispersion in low-income CTs but significantly exceeded the demographic characteristics in moderate-income CTs. The bank’s performance meets the standard for outstanding performance for the evaluation period since there is less than one percent of businesses in low-income demographic coupled with the bank’s excellent performance in moderate-income CTs. In 2014-2015, the distribution to businesses in moderate-income CTs was 38.89 percent compared to 23.04 percent of the demographic comparator. Performance in 2013 is similar to 2014-2015 performance. The bank’s performance is shown in the following tables:

Table 3A - Geographic Distribution of Loans to Businesses in AA-2014-2015								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA	% of # of Loans	% of AA	% of # of Loans	% of AA	% of # of Loans	% of AA	% of # of Loans
Businesses	0.59	<b>0.00</b>	23.04	<b>38.89</b>	53.10	44.44	23.28	16.67

Source: Dunn & Bradstreet Data

Table 3B - Geographic Distribution of Loans to Businesses in AA-2013								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA	% of # of Loans	% of AA	% of # of Loans	% of AA	% of # of Loans	% of AA	% of # of Loans
Businesses	0.59	<b>0.00</b>	23.04	<b>40.00</b>	53.10	26.67	23.28	33.33

Source: Dunn & Bradstreet data

### Consumer

The geographic distribution of consumer loans reflects excellent penetration. During the review period, the bank did not have any dispersion in low-income CTs but significantly exceeded the demographic comparator in all three years. Furthermore, the demographic data for low-income CTs was less than one-percent yielding the bank's performance as excellent. The distribution to families in moderate-income CTs for 2014-2015 was 65.00 percent compared with 24.57 percent of the AA families. Similarly, in 2013, distribution to families in moderate-income CTs for 2013 was 75.00 percent compared with 24.57 percent of the AA families. The bank's performance is shown in the following tables:

Table 4A - Geographic Distribution of Consumer Loans in AA-2014-2015								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	0.51	<b>0.00</b>	24.57	<b>65.00</b>	53.37	35.00	21.55	10.00

Source: US Census Data

Table 4B - Geographic Distribution of Consumer Loans in AA-2013								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	0.51	0.00	24.57	<b>75.00</b>	53.37	12.50	21.55	12.50

Source: US Census Data

## **Responses to Complaints**

The bank did not receive any CRA-related complaints 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.