



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 03, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The National Bank of Andrews
Charter Number 14788

1501 N. Main
Andrews, TX 79714

Office of the Comptroller of the Currency
Lubbock Field Office
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Lubbock, TX 79424-1319

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 National Bank of Andrews (NBA) has a satisfactory record of meeting community credit needs. This is based on the following:

- The bank's loan-to-deposit ratio is reasonable and averaged 61 percent during the evaluation period.
- A majority of NBA's loans are within the bank's assessment area (AA). Based on a sample of loans, 89 percent of the number of loans and 66 percent of the dollar volume of loans were originated to borrowers within the assessment area.
- NBA has a reasonable penetration of loans to businesses of different sizes, and individuals of different income levels. Loans originated to small businesses totaled 60 percent by number and 62 percent by dollar volume of loans, compared to the AA demographic of small business at 69 percent.

DESCRIPTION OF INSTITUTION

NBA is an intrastate bank located in Andrews, Texas, which is approximately 35 miles northwest of Odessa, Texas. The bank is a wholly owned subsidiary of Andrews Bancshares Inc. (ABI), a one-bank holding company located in Andrews, Texas. ABI reported total assets of \$142 million as of June 30, 2012. There was no merger or acquisition activity during the evaluation period.

The bank offers a full range of commercial and consumer banking products and related financial services. The bank provides access to banking services through its website at www.nbabankonline.com. Services include account balance inquires, funds transfer, and bill pay services. The bank also offers 24-hour X-Press telephone banking. Services include deposit and loan balance inquiry, funds transfer, and verification of direct deposits and automated teller machine (ATM) activity.

As of June 30, 2012, NBA had total assets of approximately \$142 million, with 52 percent of these assets in the loan portfolio. The bank is primarily a commercial lender with a large volume in commercial and industrial and commercial real estate loans. The following chart details a breakdown of NBA's loan portfolio as of June 30, 2012.

Loan Portfolio Composition as of June 30, 2012		
Loan Category	\$ (000)	%
Commercial & Industrial*	34,225	46.32
Commercial RE	17,728	23.99
Residential RE	14,252	19.29
Consumer**	5,678	7.68
Agricultural	1,988	2.69
Other	16	0.03
Total	73,887	100.00

Source: June 30, 2012 Report of Condition

Primary products were determined based largest dollar volume* of originations and highest number of loans** originated during the review period.

NBA has two full-service branches in Andrews and two drive-up facilities. Bank lobby services provided at the main facility are Monday through Friday. The Thriftway store branch has limited Saturday hours. Based on its financial condition, the local economy, product offerings, competition, and prior performance, NBA has the ability to meet the various credit needs in its community. The bank was rated "Satisfactory" at its last examination on March 24, 2006. No legal impediments or other factors hinder NBA's ability to provide credit in its AA.

NBA's business strategy is to provide outstanding banking services to customers in West Texas while increasing the long-term value of the owners' investment. NBA's Tier 1 Capital is \$10.6 million representing 7.41 percent of adjusted average assets as of June 30, 2012. The bank is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks.

DESCRIPTION OF ANDREWS COUNTY ASSESSMENT AREA (AA)

NBA is located in the city of Andrews and has designated Andrews County as its AA. Andrews County is situated on the northern edge of the Permian Basin and is located approximately 35 miles northwest of Odessa. The city of Andrews is the only city in Andrews County.

Specific demographic data and economic data for this area are listed below.

Demographic and Economic Characteristics of Andrews County AA	
Population	
Number of Families	3,548
Number of Households	4,594
Geographies	
Number of Census Tracts/BNA	
% Low-Income Census Tracts/BNA	0.0
% Moderate-Income Census Tracts/BNA	0.0
% Middle-Income Census Tracts/BNA	75.0
% Upper-Income Census Tracts/BNA	25.0
Median Family Income (MFI)	
2000 MFI for AA	38,721
2011 HUD-Adjusted MFI	48,600
Economic Indicators	
Unemployment Rate	4.70
2011 Median Housing Value	42,640
% of Households Below Poverty Level	17.0

Source: 2000 Census data and 2011 HUD updated income data.

The bank's AA is comprised of four contiguous census tracts (CTs). This area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income (LMI) geographies.

Based on 2000 Census data, the AA as a total population of 13,004. This represents a decline of 9.03 percent from 1990 Census population level. There are 5,400 housing units in the AA, of which 68 percent are owner-occupied, 17 percent are renter-occupied, and 15 percent are vacant. Approximately 18 percent of the families in the AA are considered low-income. Moderate-income families approximate 17 percent of the population, while middle- and upper-income families comprise the remaining 65 percent. The local economy is based on oil and gas and

related businesses. Recent increases in oil and gas prices have had a positive impact on the local economy. A low-level radioactive waste disposal site is located in the western portion of Andrews County and a uranium enrichment facility just over the New Mexico border provide several hundred jobs for Andrews County residents. Continuous construction at the uranium enrichment facility since 2006 has also provided hundreds of jobs. The largest non-energy related employers within the AA include the Andrews Independent School District, the local hospital, and a Kirby Company vacuum manufacturing plant. Key Energy is the largest energy related employer.

Competition is high in the AA. In addition to NBA, there is a local state bank, several finance companies, and three credit unions. A large number of residents in Andrews County utilize the services offered by the credit unions.

One community contact was conducted for the purpose of determining a community profile, identifying opportunities for participation by local financial institutions, and determining the performance of local financial institutions. The contact indicated that the local economy is strong due to an extended period of favorable oil and gas prices and additional energy related economics in the area. He stated that both personal and business income have risen significantly in the last three years. The contact identified lodging (housing and hotels) and venture capital for start-up companies as the primary credit needs. The community contact also indicated the local financial institutions are cooperative and diligent in trying to meet the community’s credit needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period for this CRA examination is from March 2006 through June 2012. NBA’s performance is satisfactory, and management has been successful in meeting the credit needs of the bank’s assessment area, including lending to businesses of different sizes and individuals of different income (including low- and moderate-income) levels.

Loan-to-Deposit Ratio

The loan-to-deposit ratio of NBA is reasonable given the bank’s size, financial condition, and AA credit needs. The bank’s quarterly average loan-to-deposit ratio was 60.5 percent since the prior CRA examination in March 2006. During the evaluation period, NBA’s loan-to-deposit ratio ranged from a low of 52.1 percent to a high of 69.2 percent. The average loan-to-deposit ratio of similarly situated banks within or contiguous to the AA for the same period was 55.9 percent.

The quarterly average loan-to-deposit ratio for each similarly situated bank in or contiguous to the AA is listed below. Please note that these banks are listed by total asset size, with the exception of NBA, and that no ranking is intended or implied.

Loan-to-Deposit Ratios		
Institution	Total Assets \$ (000's) (As of 6/30/12)	Average Loan-to-Deposit Ratio
The National Bank of Andrews	141,858	60.53%
Commercial State Bank - Andrews	455,361	79.18%

West Texas State Bank - Odessa	371,283	59.10%
The Lamesa National Bank	242,796	42.97%
Southwest Bank - Odessa	230,090	63.12%
Bank of Texas - Midland	159,315	59.08%
The First National Bank of Stanton	107,471	32.18%

Source: Institution Reports of Condition from March 2006 to June 2012

Lending in Assessment Area

A majority of NBA's loans were made within its AA. In order to assess performance for this criterion, we reviewed 23 commercial and 21 consumer loans that originated between January 2009 and June 2012. Our analysis determined that 89.1 percent of the number of loans and 65.5 percent of the dollar amount of loans in the sample were extended within the bank's AA. The breakdown by loan category is illustrated in the following table.

Lending in the Assessment Area								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial	20	86.96	2,231	63.29	3	13.04	1,294	36.71
Consumer	21	91.30	326	87.17	2	8.70	48	12.83
Total Reviewed	41	89.13	2,557	65.58	5	10.87	1,342	34.42

Source: Sample of loans used for CRA performance analysis

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

NBA's loan portfolio reflects a reasonable distribution among individuals of various income levels (including low- and moderate-income) and small businesses of different sizes within their AA. To perform our analysis, we reviewed income information for 20 commercial and 21 consumer-purpose loans that originated in the Andrews County AA.

Commercial Loans - Based on 2011 Business Demographic Data, there are 1,406 businesses within the Andrews County AA. Of this number, 69 percent of businesses reported revenues less than or equal to \$1 million. Of the loans in the commercial loans sample, 60 percent of the number of loans and 62 percent of the dollar volume of loans were to businesses reporting annual revenues below \$1 million. This level reflects a reasonable penetration of loans to small businesses. The following chart reflects the results of our selected sample of commercial loans originated in the AA.

Borrower Distribution of Loans to Businesses in Andrews County Assessment Area				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	68.63%	1.92%	29.45%	100%
% of Bank Loans in AA by #	60.00%	40.00%	0.0%	100%
% of Bank Loans in AA by \$	62.08%	37.92%	0.0%	100%

Source: Loan sample; 2011 Business Geodemographic Data

Consumer Loans - Our analysis reflects a reasonable penetration of consumer loans to low- and moderate-income households in the Andrews County AA. Based on 2000 Census Information, 20 percent of households in the AA are low-income and 16 percent are moderate-income. Our review determined that 19 percent of consumer loans (by number) and 9 percent (by dollars)

were made to low-income households and 19 percent by number and 15 percent by dollar were made to moderate-income households.

Borrower Distribution of Consumer Loans in Andrews County Assessment Area								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	20.22%		16.20%		18.59%		44.99%	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	19.05%	8.60%	19.05%	14.78%	9.52%	7.79%	52.38%	68.84%

Source: Loan sample; 2000 U.S. Census data.

Geographic Distribution of Loans

We did not perform an analysis of the geographic distribution of NBA’s loans. There are no low- or moderate-income census tracts in the bank’s AA. NBA’s AA consists of three middle- and one upper-income census tracts. Therefore, this type of analysis would not be meaningful.

Responses to Complaints

No complaints relating to CRA performance have been received by NBA or the Office of the Comptroller of the Currency.

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.