

PUBLIC DISCLOSURE

April 4, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**American State Bank
Certificate Number: 16701**

**1401 Avenue Q
P. O. Box 1401
Lubbock, Texas 79408-1401**

Federal Deposit Insurance Corporation

**Division of Supervision and Consumer Protection
1910 Pacific Avenue, 19th Floor
Dallas, Texas 75201**

NOTE: 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.

SERVICE TEST

Strong responsiveness to the needs of the communities served was demonstrated through the delivery of retail and community development services. The record of community development services provided between evaluation periods was exceptional, as evidenced by the leadership roles taken in various community development corporations (CDC), community projects, and civic organizations. Employees actively participate in organizations that serve the needs of low- and moderate-income individuals and geographies. Extensive and comprehensive retail banking systems ensure that the bank’s products and services are easily accessible by all segments of the assessment areas.

LENDING, INVESTMENT, AND SERVICE TEST TABLE

The following table indicates the performance level of the institution with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	American State Bank		
	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			X
High Satisfactory	X	X	
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

*The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.

INVESTMENT TEST

Investments were reviewed and evaluated on the bank's activities in the combined assessment areas. Appendix D explains the investment test scope, reflecting the performance factors considered by examiners when determining a rating.

Good performance was displayed regarding this test. In addition to a substantial increase in the number of investments and donations made since the previous evaluation, there was an increase in the dollar volume. City and county governments in the bank's assessment areas rarely offer investments that meet CRA qualifications. This makes it challenging for financial institutions to meet this requirement. Even so, ASB made diligent efforts to identify and obtain qualified investments. As noted below, the bank purchased investments that provided funding for community development needs. Some were not routinely provided by private investors and were innovative and/or complex.

Qualified investments and contributions since the previous evaluation totaled \$4,943,640. The bank purchased 12 qualified investment totaling \$4,757,550 during the evaluation period. Additionally, the bank made over 220 donations totaling \$186,090 to various entities that specialize in assisting low- and moderate-income individuals and/or neighborhoods. Total investments and donations represent 0.27 percent of total assets and 2.70 percent of total equity capital. The number and dollar volume of qualified investments are considered good relative to the institution's capacity, needs of the various assessment areas, and available opportunities.

One investment in particular represents both an innovative and complex instrument sensitive to the needs of the Abilene assessment area and is beyond the normal scope of traditional bank investments. In particular, the purchase of U.S. Government Guaranteed Notes for financing Community Development Block Grant (CDBG) programs. This investment is testament to the bank's diligent efforts to identify and obtain qualified investments that will directly benefit the needs of the bank's assessment areas.

Examples of Qualified Investments/Donations

As noted in the following examples, ASB has purchased qualified investments and/or made qualified contributions in all assessment areas. This attests to the institution's commitment to serve the needs of the areas served.

ASB purchased \$1,000,000 in Senior Housing Crime Prevention Foundation (SHCPF) bonds that provide a direct benefit to the Odessa and Abilene MSAs in the amount of \$500,000 each. Through this program, nursing home and HUD residents receive the Senior Crimestoppers program absolutely free. In sponsored facilities, incidents of crime have decreased approximately 88 percent. SHCPF is a nonprofit corporation established under the guidance of the Office of the Comptroller of the Currency (OCC). One of the primary purposes of forming this organization was to provide an avenue for the banking community to receive qualified Community Reinvestment Act (CRA) credit through participation. The OCC has defined nursing home and HUD residents as a low- and moderate-income group. Any loan or investment that goes to benefit or support this group is considered as qualified CRA credit and allows banks

to support a segment of society that it might not otherwise have contact with. Support to senior housing residents through the SHCPF also qualifies as a community development service.

The bank purchased \$160,000 in U.S. Government Notes for financing a Community Development Block Grant (CDBG) Entitlement Communities Program in Abilene. The action plan outlines the proposed use of approximately \$2,200,000 in CDBG and HOME funds for financing economic development activities. These resources are reserved for an array of projects including housing rental rehabilitation, emergency repairs, home buyer and closing cost assistance, and family self-sufficiency programs. Approximately 92 percent of total funds are for the direct benefit of low- and moderate-income citizens. HOME funds are allocated to Habitat for Humanity, the city's Community Housing Development Organization (CHDO), to rehabilitate homes, and to increase housing stock.

A \$330,000 investment was purchased from the Development Corporation of Snyder. The purpose of the investment was to construct improvements to the city's waterworks and sewer system to provide delivery of treated water to and the collection of wastewater from the corporation's industrial park. To date, a cotton spinning mill has been constructed which created 70 lower income jobs. The company has retained options to construct up to six additional facilities in the industrial park for processing cotton fabrics. These facilities, if constructed, will include additional spinning mills, weaving, knitting, bleaching, dyeing, and painting cotton fabrics.

A \$335,000 municipal bond was purchased from the city of Shallowater, Texas, a community with a population of 1,708. Funds were used to make improvements to the sewer system throughout the city, thereby benefiting citizens of all income levels. Approximately 29 percent of total households are low-income and 13 percent are moderate-income.

The bank purchased \$1,100,000 in bonds to construct, renovate, and equip school buildings in the Shallowater ISD. These funds benefit students from families of all income levels. Approximately 17 percent of the families in the area are low-income and about 15 percent are moderate-income.

Prior Investment: ASB purchased \$4,200,000 in Fannie Mae Delegated Underwriting Servicing (DUS) bonds in February 2000, which are still on the bank's books. Bond funds were specifically targeted for low-income housing in the Lubbock MSA.

A \$7,500 donation was made to Diamondback Charity Classic. The funds were used as part of Abilene's Hospice Care & Noah Project to assist low- and moderate-income families.

The bank donated \$3,750 to the Junior League of Odessa for their Habitat Project.

A \$3,325 donation was made in the Midland/Odessa assessment area to Harmony Home. This organization is a child advocacy center that provides therapy and Medicare and Medicaid assistance for abused children. Approximately 60 percent of the children are from low- and moderate-income families.