



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 05, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Alvin
Charter Number: 14905

1600 East Highway 6
Alvin, TX 77511

Office of the Comptroller of the Currency

Houston Field Office
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 Community Reinvestment Act (CRA) RATING:
This institution is rated Outstanding.**

First National Bank of Alvin (FNBA) has an Outstanding record of meeting credit needs within the community. The following supports this rating:

- Lending to borrowers of different incomes and businesses of different sizes is excellent and exceeds the standards for satisfactory performance. In addition, the bank offers two innovative loan products that benefit low- and moderate-income borrowers.
- Lending in the assessment area (AA) is reasonable.
- The loan-to-deposit ratio is reasonable considering the bank's performance context and a comparison to a peer group of banks in Brazoria County.
- The geographic distribution of loans is reasonable.

SCOPE OF EXAMINATION

We completed a full-scope review of FNBA's CRA performance. Our review focused on loan originations in 2005, 2006, and year-to-date 2007. We reviewed the three major loan products: residential, commercial, and consumer. For residential loans, we reviewed all owner-occupied loans reported on the Home Mortgage Disclosure Act (HMDA) - Loan Application Register for this period. Of the 77 loans reported on the HMDA – Loan Application Register, two were purchase loans, two loans were to refinance, and 73 were home improvement loans. For lending to borrowers of different incomes and to businesses of different sizes, we selected a statistically valid sample of 20 commercial loans and 30 consumer loans. For the geographic distribution of loans, senior management provided reliable information on the census tract (CT) location of every loan of the three major loan products originated during this period. This total included 86 residential, 222 commercial, and 1,296 consumer loans.

DESCRIPTION OF INSTITUTION

FNBA is one of two community banks owned by Coastal Bancshares, Inc., headquartered in Pearland, Texas. FNBA is headquartered in Alvin, Texas, and it has one branch in Manvel, Texas. Total bank assets of \$89 million were reported as of September 30, 2007. At this date, the loan portfolio totaled \$25 million. The primary lending focus was commercial lending at 56 percent of the loan portfolio, residential lending at 13 percent, and consumer loans at 11 percent. The bank received a Satisfactory rating at the previous CRA examination dated December 2, 2002. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the AA.

Please refer to FNBA's CRA Public File for more information about this institution.

DESCRIPTION OF ASSESSMENT AREA(S)

The bank's AA includes 14 contiguous CTs, in the middle of Brazoria County, out of a total of 30 CTs in Brazoria County. Brazoria County is part of the Houston-Sugar Land-Baytown Metropolitan Statistical Area. The bank's AA does not include the northern CTs closest to neighboring Harris County since customers living in these CTs are served by Pearland State Bank, which is also owned by the bank's holding company. The CTs in southern Brazoria County are not part of the AA because several competing financial institutions are the principal originators in this part of Brazoria County. FNBA does not compete for loans in these CTs. Of the 14 CTs in the AA, two are designated as moderate-income, nine as middle-income, and three as upper-income.

According to the U.S. Census, the AA has a total population of 87 thousand with 8.5 percent having incomes below the poverty level. Approximately 18 percent of the population receives social security benefits. The weighted average of median housing is \$90 thousand. Of the 30 thousand housing units, about 72 percent are owner-occupied. The updated median family income is \$57,300 for 2007, and the weighted average median household income according to the U.S. Census has been \$53,250 for the evaluation period.

The City of Alvin has approximately 24 thousand residents according to The Greater Houston Partnership. Alvin is 25 miles southeast of the City of Houston in Harris County, Texas, and Alvin has a major highway to Houston a short distance from downtown Alvin. Because of the close proximity, Houston has a significant influence on Brazoria County and the cities of Alvin and Manvel. The largest employer in Brazoria County is the Alvin Independent School District with 1,834 employees. Other major employers with more than 500 employees each include Dish Network, Wal-Mart, and Alvin Community College. Manvel is adjacent to and west of Alvin. Manvel's population is estimated at 7 thousand. According to the Manvel Economic Development Corporation, it is one of the fastest growing cities in Brazoria County. This growth is at least partially attributable to its close location to the major highway to Houston.

Banking competition is intense. Alvin has a total of 15 financial institutions competing for loans and deposits. In addition to a large federally chartered credit union, Alvin has branches of large international banks such as Bank of America, Wells Fargo, and Citibank, all national associations. We spoke with a local economic development leader who identified a need for housing and retail small business lending. The bank offers both loan products. The leader's overall experience with financial institutions has been positive.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank’s loan-to-deposit (LTD) ratio is reasonable. Since the prior CRA examination, the quarterly LTD ratio average is 36 percent. The ratio is somewhat below but still close to a peer group average of six similarly situated small banks in Brazoria County of 41 percent. In addition, the bank has a significant volume of public funds not available for lending. Analyzing information for the 19 quarters since the prior CRA examination shows that the bank’s ratio is approximately an average of 4 percent less with the public funds considered.

Lending in Assessment Area

Lending within the AA is satisfactory, with a majority of loans originated in the AA by dollar volume and the number of loans, as shown in the following table:

Table 1 - Lending in Brazoria County AA										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	77	89.53	9	10.47	86	693	91.30	66	8.70	759
Commercial	185	83.33	37	16.67	222	6,225	70.40	2,617	29.60	8,842
Consumer	963	74.31	333	25.69	1,296	5,499	76.29	1,709	23.71	7,208
Totals	1,225	76.37	379	23.63	1,604	12,417	73.87	4,392	26.13	16,809

Source: Data reported under HMDA; Sample of loans.

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

Overall, lending to borrowers of different incomes and businesses of different sizes reflects excellent penetration and exceeds the standards for satisfactory performance. For residential real estate lending, performance is best measured by home improvement lending that consisted of 73 out of the 77 total home-related loans originated. As shown in the table below, the bank’s performance significantly exceeds the characteristics of the assessment area for home improvement lending to low- and moderate-income borrowers when compared to 2000 U.S. Census Bureau information about the AA.

Table 2A - Borrower Distribution of Residential Real Estate Loans in Brazoria County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	16.74%	0.00%	15.66%	0.00%	21.50%	100.00%	46.10%	0.00%
Home Refinance	16.74%	0.00%	15.66%	0.00%	21.50%	50.00%	46.10%	50.00%
Home Improvement	16.74%	28.77%	15.66%	24.66%	21.50%	26.03%	46.10%	20.54%

Source: Data reported under HMDA; U.S. Census data.

The distribution of loans to small businesses is excellent. The percentage of sampled loan originations was compared to Dunn and Bradstreet data for businesses in the AA reporting business revenues. The bank’s performance exceeds the characteristics of the AA for both number and dollar amount of loans originated to businesses with less than \$1 million in revenues. The bank’s performance is shown in the following table:

Table 2B - Borrower Distribution of Loans to Businesses in Brazoria County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	67.40%	3.95%	28.65%	100%
% of Bank Loans in AA by #	85.00%	15.00%	0.00%	100%
% of Bank Loans in AA by \$	70.18%	29.82%	0.00%	100%

Source: Loan sample; Dunn and Bradstreet data.

The borrower distribution of consumer loans compared to the U.S. Census characteristics of the AA is excellent. The bank’s performance is only slightly below in lending to low-income borrowers, and it significantly exceeds the characteristics of the AA in lending to moderate-income borrowers. The bank’s performance is shown in the following table:

Table 2C – Borrower Distribution of Consumer Loans in Brazoria County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	20.91%	20.00%	15.99%	36.67%	19.67%	23.33%	43.43%	20.00%

Source: Loan sample; U.S. Census Data.

During our consumer lending review, we found the bank does not have a minimum loan amount. Officers have originated a significant number of loans for less than \$500 that primarily benefit low- and moderate-income borrowers. In addition, the bank offers two innovative consumer products that also benefit low- and moderate-income borrowers. The first is the “Fresh Start” loan originating from an overdraft account that is not repaid. The customer is granted an interest-free loan without a credit decision. If the customer satisfactorily repays the overdraft loan, they may apply to have the overdraft privilege reinstated. The second program is “Jingle Bucks” offered each year during the holiday season for up to \$2,500. It is an unsecured loan with a payout maximum of 12 months. The most recent interest rate offered was 10.75 percent with auto-debit and 11 percent without this feature. This rate is below the bank’s normally offered rate for unsecured credit.

Geographic Distribution of Loans

Overall, the geographic distribution of loans reflects reasonable dispersion and meets the standards for satisfactory performance. The AA does not have any low-income CTs, and it only has two moderate-income CTs. One moderate-income CT is sparsely populated, and the other is small. Therefore, the officers’ ability to originate loans in these two CTs is limited.

For residential real estate lending, the bank’s performance is best measured by home improvement lending that represented 73 out of the 77 home-related loans originated. As shown in the table below, the geographic distribution of loans originated in moderate-income census tracts exceeds the characteristics of the AA for home improvement loan originations.

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 Purchase	0%	0%	8.86%	0.00%	53.75%	100.00%	37.39%	0.00%
Home Refinance	0%	0%	8.86%	0.00%	53.75%	50.00%	37.39%	50.00%
Home Improvement	0%	0%	8.86%	9.59%	53.75%	84.93%	37.39%	5.48%

Source: Data reported under HMDA; U.S. Census data.

The geographic distribution of loans to businesses in low- to moderate-income census tracts is reasonable. It is close to the characteristics of the AA compared to Dunn and Bradstreet data. The bank's performance is shown in the following table:

Table 3B - Geographic Distribution of Loans to Businesses in Brazoria County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Commercial	0.00%	0.00%	7.97%	7.03%	51.41%	89.19%	40.62%	3.78%

Source: Bank-collected data; Dunn and Bradstreet data.

The geographic distribution of loans to consumers is reasonable. It is close to the characteristics of the AA compared to U.S. Census Bureau data in moderate-income CTs. The bank's performance is shown in the following table:

Table 3C - Geographic Distribution of Consumer Loans in Brazoria County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0.00%	0.00%	8.34%	7.37%	58.11%	87.33%	33.55%	5.30%

Source: Bank-collected data; U.S. Census data.

Community Development Loans

Bank officers actively seek community development loans in the AA. During the evaluation period, officers originated loans to three borrowers meeting the definition of community development in a total amount of \$108 thousand. One borrower provides child care services and receives partial payments from the State of Texas based on income levels. Another borrower provides health care for low- and moderate-income persons and receives funding from a state agency and donations. A third borrower is a United Way agency providing services to those with a family income less than 150 percent of the poverty level.

Responses to Complaints

The bank did not receive any CRA-related complaints during the evaluation period.

Qualified Investments and CD Services

Considering its size, the bank originates a significant number of donations annually. The total for the last four years is \$48 thousand, an average of \$12 thousand per year. Of the total, we identified several donations totaling \$1.3 thousand that met the definition of community development.

The bank's branches are easily accessible for low- and moderate-income individuals. Of the two moderate-income CTs, one is close to the Manvel office and the other is close to the Alvin office.

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.