



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 14, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank of Brenham, National Association
Charter Number 24153

501 South Austin Street
Brenham, TX 77833

Office of the Comptroller of the Currency

HOUSTON
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.

The major factors supporting the institution's rating are:

- The quarterly loan-to-deposit ratio since the prior examination is more than reasonable and exceeds a peer group ratio for the same period.
- Lending to borrowers of different incomes and businesses of different sizes is reasonable.
- A majority of loans have been originated inside the assessment area.

SCOPE OF EXAMINATION

We completed a full-scope review of the bank's CRA activities in the assessment area (AA) of Washington County, Texas. Our lending review was focused on borrower income distribution for the two primary loan products of residential real estate and commercial loans to businesses.

Our review included statistically selecting a sample of eight owner-occupied residential real estate loan originations from 2006 and 2007. Although not required under the Home Mortgage Disclosure Act (HMDA) since the bank is not located in a Metropolitan Statistical Area, management began maintaining the information that would be kept for a HMDA Loan Application Register. We reviewed management's information and verified its reliability. Therefore, we reviewed all residential real estate loan originations in 2008. In total, we reviewed 45 loan originations for residential real estate loan products. For loans to businesses, we statistically selected a sample of 25 commercial and commercial real estate loans originated in 2006, 2007, and year-to-date 2008. Our review was focused on the gross revenue of the business.

DESCRIPTION OF INSTITUTION

Bank of Brenham, N. A. is an independently owned institution located in Brenham, Texas in Washington County. It has one main location at 501 South Austin and does not currently have any branches. The bank was chartered on August 7, 2001, and it is not owned by a holding company. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the AA. As of June 30, 2008, the bank had \$61 million in assets and a Tier One Leverage Capital ratio of 9.31 percent. The loan portfolio represents 54 percent of total assets. The primary business focus is residential real estate lending at 35 percent and commercial lending at 34 percent of the portfolio. Other loan products include construction and land development at 14 percent, consumer lending at 13 percent, and other lending at 4 percent. The bank received a Satisfactory rating at the prior examination dated December 1, 2003.

Please refer to the bank's Public File for additional information.

DESCRIPTION OF ASSESSMENT AREA

The bank's AA includes all five census tracts (CTs) in Washington County. Washington County does not have any low- or moderate-income CTs. Two of the five CTs are middle-income CTs, and three are upper-income. According to the 2000 U.S. Census, the AA has a population of approximately 30 thousand with 14 percent having incomes below the poverty level. Approximately one-third of the population receives social security benefits. Of the 13.2 thousand housing units in the AA, about 8 thousand are owner-occupied. According to the Economic Development Foundation of Brenham, the median housing value is \$84,197. The updated Housing and Urban Development median family income is \$43,600 for 2008. Brenham is the largest city and county seat with an estimated population 13.5 thousand. It is the home of Blue Bell Creameries, the third best selling ice cream in the United States sold in only 17 states. Brenham is within reasonable driving distance of Houston, Texas. Banking competition in the AA is intense. In addition to eight competing community banks, Brenham has branches of two large national financial institutions, three other non-bank financial institutions, and several finance companies.

The largest employers are Blinn College, Brenham State School, Blue Bell Creameries, and Brenham Independent School District, all with more than 700 but less than 1 thousand employees. The next largest employers with 300 to 400 employees are the Wal-Mart Supercenter, Germania Farm Mutual Insurance, and Mount Vernon Mills. All other employers in Washington County have less than 300 employees.

An OCC Community Affairs Officer completed two community contacts for this examination. One contact was with the director of a local housing authority providing affordable housing. The director felt that local banks were responding to small business needs. Another contact was with a local Small Business Development Center. The Center serves the three counties of Washington, Austin, and Colorado, and provides business workshops and counseling services to small businesses. The contact identified opportunities for local financial institutions as community development, other credit-related projects, or financing programs. Small business lending is a primary Bank of Brenham product. Also, we identified three community development loans during our review that are discussed later in this Evaluation.

Please refer to the bank's Public File for additional information.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio is more than reasonable. Since the prior examination and for an average of 19 quarters, the bank's LTD was 69 percent. We selected a peer group of 12 banks in Washington County and the adjoining counties of Austin, Grimes, and Burleson. The bank's LTD ratio exceeds the 60 percent ratio of this peer group for the same period.

Lending in Assessment Area

Lending inside the AA is a majority as shown in the following table:

Table 1 - Lending in Washington County										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		#	%	#	%	
Residential RE	41	91.11	4	8.89	45	2,790	87.18	410	12.82	3,200
Commercial	24	96.00	1	4.00	25	1,362	99.63	5	0.37	1,367
Totals	65	92.86	5	7.14	70	4,152	90.91	415	9.09	4,567

Source: Data collected by bank, Sample of loans.

In addition to our assessment of lending in the AA, we reviewed an analysis of lending in Washington County by zip code prepared by management as of September 11, 2008. This analysis determined that the dollar volume of lending in the AA was \$26.5 million of the \$32 million loan portfolio or 83 percent. Also, this analysis supports management’s conclusion that loans outside of the AA were originated based on prior relationships with customers, family members residing in Washington County, and other similar reasons.

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

Overall, lending to borrowers of different incomes and to businesses of different sizes reflects reasonable penetration.

We compared the bank’s owner-occupied residential real estate loan originations to the 2000 U.S. Census characteristics of the AA. Lending to low-income borrowers is less than the AA characteristics. However, the availability of affordable housing in the AA for low-income borrowers is limited, and this limits opportunities for lending. In addition, the AA has a 14 percent poverty level, further limiting the ability to originate home loans. Lending to moderate-income borrowers is near the characteristics of the AA. The bank’s performance is shown in the following table:

Table 2 - Borrower Distribution of Residential Real Estate Loans in Washington County								
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
Real Estate	15.66	4.88	15.17	14.63	18.52	26.83	50.65	53.66

Source: Data collected by bank and loan sample; U.S. Census data.

We compared the bank’s business loan originations to the characteristics of the AA according to current Dunn and Bradstreet information. By number, the bank’s loan originations to businesses with \$1 million or less in gross revenue was near the characteristics of the AA. By dollar, loan originations were somewhat above. The bank’s performance is shown in the following table:

Table 3 - Borrower Distribution of Loans to Businesses in Washington County				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	63.94	3.64	32.42	100%
% of Bank Loans in AA by #	62.50	25.00	12.50	100%
% of Bank Loans in AA by \$	67.25	25.58	7.17	100%

Source: Loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans

Washington County does not have any low- or moderate-income census tracts. Therefore, an analysis of the geographic distribution of loans would not be meaningful.

Community Development Loans

During our review, we identified three loans with a community development purpose totaling \$433 thousand. Officers originated two loans to a local charitable organization whose mission is providing assistance to needy people including housing, food, training, and financial assistance. The two loans were to purchase properties used for temporary housing. In addition, this organization has recently provided assistance to hurricane evacuees. The other loan is to a local charitable organization that provides affordable housing assistance to local residents. The loan was to purchase a building to serve as a shop and warehouse.

Responses to Complaints

The bank did not have 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.