



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 01, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Bank of Brenham, National Association
Charter Number 24153**

**401 South Austin Street
Brenham, TX 77833**

**Comptroller of the Currency
Assistant Deputy Comptroller - Houston
1301 McKinney Street, Suite 3410
Houston, TX 77010**

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.

Bank of Brenham, National Association is responsive to the credit needs of its community including low- and moderate-income individuals and small businesses in the bank's assessment area. The following factors support this conclusion:

- The loan-to-deposit ratio is satisfactory especially considering the bank was recently chartered on August 7, 2001.
- Lending in the assessment area is a majority.
- The borrower distribution of lending to low- and moderate-income borrowers for residential real estate loans is reasonable, and the borrower distribution of loans to small businesses in the assessment area meets the standards for satisfactory performance.

DESCRIPTION OF INSTITUTION

Bank of Brenham, National Association is a \$35 million full service bank located in Brenham, Texas. Based on its financial condition, the bank is able to meet the credit needs of the community, primarily commercial and residential real estate loans. The loan portfolio is approximately \$20 million, or 57 % of total assets. Loan portfolio composition at September 30, 2003 was commercial (24%), residential real estate (23%), consumer (18%), commercial real estate (15%), construction and land development (14%), and all other loans (6 %). The business strategy is focused on commercial and residential real estate lending; however, officers actively solicit loans in all categories. The bank does not have any legal, financial, or other factors impeding its ability to help meet the credit needs in the assessment area. The bank is not a subsidiary of a holding company and does not have affiliates, subsidiaries, or branches. Lobby banking hours are reasonable and are from 9:00 AM to 5:00 PM Monday through Friday. Saturday hours are from 9:00 AM until 12:00 noon. The Drive-In Bank has extended hours from 7:30 AM in the morning until 5:30 PM, Monday through Friday. It is open the same hours as the lobby on Saturday. The bank does not have an automated teller machine (ATM); however, customers are issued ATM cards and can use other financial institution ATMs with the bank reimbursing up to \$6 per month in charges. This is the bank's first Community Reinvestment Act (CRA) examination. For additional information, see the bank's Public File.

DESCRIPTION OF WASHINGTON COUNTY

Bank of Brenham, National Association's assessment area meets the requirements of the regulation and includes all of Washington County. The county has three middle-income census tracts and three upper-income tracts. It does not have any low- or moderate-income tracts. Banking competition in the county is significant. There are thirteen national and state banks in a four county area in close proximity ranging in size from \$21 million to \$174 million. In addition

to competing community banks, Brenham has two savings and loans, two credit unions, and branches of two large interstate banking systems, Bank One and Wells Fargo. In addition, a local Chamber of Commerce publication lists six financial planning services that compete with the local financial institutions.

Brenham is the largest city in Washington County with an estimated population of 13,507 in 2000. Washington County had 30,373 residents in the same year and covered 609 square miles. The largest employers are Brenham State School and Blue Bell Creameries. Major manufacturers and wholesalers include Sealy Mattress, Valmont Industries, Mount Vernon Mills, PI Components, Wallace Computers, Brenham Wholesale Grocery, and MIC Group. Other major employers include Blinn College, Germania Insurance, and Trinity Medical Center. Washington County and Brenham, in particular, are experiencing a growth in population from people retiring and moving to the area especially from Houston, Texas. Also, people from metropolitan Houston and Austin are buying weekend homes in Washington County. Brenham is located on a major highway, Highway 290, between Houston and Austin. Brenham has the only hospital on this highway between these two cities. In addition, Blinn Junior College is located in Brenham, and it is the oldest junior college in Texas. Blinn has an enrollment of over 13,000 students. Real estate prices have risen significantly in recent years. The average house price compiled from Texas Rural Real Estate Network information from November 2001 to November 2002 was \$82,401 for two bedrooms, \$106,954 for three bedrooms, and \$205,426 for four bedrooms. During the examination, we met with a local Chamber of Commerce leader who believed the greatest need for the community was in middle and upper income ranges because of demand by retiring people moving to the county and companies seeking housing for their employees. Next, he saw loans to small and mid-size commercial businesses and agriculture loans as the second and third greatest needs. He spoke favorably of the performance of all financial institutions in the area in meeting credit needs of the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our review focused on 1- 4 family residential property loans and commercial loans. These are the bank's major loan products. We reviewed a total of twenty-nine residential real estate loans and twenty-one commercial loans.

Loan-to-Deposit Ratio (LTD)

The LTD is satisfactory. Since the bank was opened on August 7, 2001, the average quarterly LTD ratio was 44.38%. However, the average for the last five quarters was 58.29%, and the LTD ratio at September 30, 2003 was 66.63%. We concluded the more recent LTD ratios are most characteristic of the bank's plan for future LTD ratios and likely performance. Management regularly compares its LTD ratio to a peer group of nine local banks considered to be the bank's primary competition. For the June 30, 2003 comparison, the bank had a 63.8% LTD ratio, and the average for the peer group was 54.6%. The LTD ratios for this group ranged from a low of 27.5% to a high of 75.0%. We compared the bank to a larger peer group of twelve banks in four neighboring counties. This comparison showed that peer group average to be 59.98% when the bank had a 63.8% LTD ratio. Based on these two comparisons, we concluded that the bank's LTD ratio should remain at the same level as the peer group or be somewhat

above the peer group average.

Lending in Assessment Area

Lending in the assessment area is a majority and meets the standards for satisfactory performance. Senior management analyzed the bank’s loan portfolio at June 30, 2003 and found 83.2% of the number of loans and 83.7% of the dollar amount of the bank’s loans were originated in the assessment area. Total performance as analyzed by senior management is reflected in the following table:

Table 1 - Lending in Washington County										
Loans	Number of Loans					Dollars of Loans (000’s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Totals	455	83.2	92	16.8	100.0	15,977	83.7	3,103	16.8%	100.0

Source: Senior management review of loan portfolio.

Our sample confirmed the accuracy of management’s analysis and reflected 86% of both the number and dollar amount of loans having been originated in the assessment area. Although lending in the assessment area is not a concern, the reasons for loans granted outside the assessment area were reasonable and included parents and grandparents living in the area, borrowers were shareholders, and borrowers were originally from Washington County.

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

Lending to borrowers of different incomes is reasonable considering the lending opportunities and economic conditions in Washington County. The bank’s lending performance meets the standards for satisfactory performance.

Residential real estate lending is presented first. Our sample included all residential real estate loans originated in 2002 in the assessment area (AA) for a total of twenty-three loans. The bank’s lending 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
1 – 4 Family	17	4	14	4	19	26	50	65

Source: Loan Sample, Census data.

Although below the characteristics of the assessment area, we found a reasonable level of lending to low- and moderate-income borrowers based on the characteristics and conditions of

the assessment area. The bank has a lack of applications from low- and moderate-income borrowers, the availability of homes for low- and moderate-income borrowers is limited in Brenham and Washington County, and Washington County real estate is expensive. In addition, the bank does not offer fifteen and thirty year fixed rate mortgages. They only offer three to five year mortgages with a balloon balance due at maturity. Also, the bank requires a 15% down payment. As a service to customers and potential customers, they are often referred to one of the several lenders in Washington County offering long-term fixed rate mortgages and 90% to 95% financing.

Lending to businesses of different sizes meets the standard for satisfactory performance. Our random sample included twenty-one commercial loans in the assessment area (AA) granted in 2002 and 2003. Dun and Bradstreet information on Washington County was used for comparison. The bank’s performance is similar to the characteristics of the assessment area and is reflected in the following table:

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	90	10
% of Bank Loans in AA by #	75	25
% of Bank Loans in AA by \$	91	9

*Source: Loan sample; Dunn and Bradstreet data. * 5% of AA businesses did not report revenue data*

Geographic Distribution of Loans

Washington County does not have any low- or moderate-income census tracts. We discussed the location of pockets of low-income individuals with bank officers and found the only areas having a concentration of low-income individuals had mostly rental housing. Therefore, we could not perform a meaningful analysis of the geographic distribution of residential real estate. Similarly, a review of the bank’s commercial loans would not be meaningful. Commercial businesses in Brenham and Washington County are not concentrated in any particular location.

Responses to Complaints

The bank has not received any complaints about its performance in helping to meet assessment area needs during this evaluation period.

Fair Lending Review

An analysis of two years of public comments and consumer complaint information was performed according to the Comptroller of the Currency’s risk based fair lending approach. Based on its analysis of information, the Comptroller of the Currency decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The bank has not had a comprehensive fair lending examination since it opened on August 7, 2001.