



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

---

## **PUBLIC DISCLOSURE**

**June 12, 2007**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The Brady National Bank  
Charter Number 7827**

**101 S. Blackburn  
Brady, TX 76825**

**Comptroller of the Currency  
San Antonio North Field Office  
10101 Reunion Place, Suite 402  
San Antonio, TX 78216**

**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 the 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."**

Lending performance for Brady National Bank (BNB) is satisfactory given its size, financial condition, and known credit needs of its assessment area (AA).

- BNB's lending performance exceeds the standard for satisfactory performance. The bank's loan-to-deposit (LTD) ratio has averaged 71% during the evaluation period.
- A majority of BNB's loans, 83% of the number and 67% of the dollar volume, are in the bank's AA.
- BNB's distribution of loans to individuals of varying incomes and to businesses of different sizes meets the standard for satisfactory performance, given the demographics of the AA.
- The geographic distribution of loans in BNB's AA meets the standard for satisfactory performance.
- There have been no complaints with respect to BNB's CRA performance since the 2002 CRA Performance Evaluation.

## **DESCRIPTION OF INSTITUTION**

BNB is a \$74 million community bank located in Brady, Texas. Brady, the county seat of McCulloch County, is located approximately 115 miles northwest of Austin. The bank is a wholly-owned subsidiary of Texas Country Bancshares, a four-bank holding company. BNB has one location, including a drive-through facility, which is located in downtown Brady. The bank has two automated teller machines (ATMs) located in and adjacent to convenience stores on major thoroughfares. These ATMs do not take deposits.

BNB offers customers full banking services as well as insurance products and brokerage services. Customers are provided 24-hour banking service through the Personal Access Line (PAL) and Internet Banking (IB). PAL is a telephone audio response system, which allows customers to obtain account balance information and transfer funds between accounts. IB provides customers access to account balance information, transfers of funds, and Bill Pay.

The bank's primary competition includes the Commercial National Bank of Brady, Mason National Bank, First Ag Credit, and the Federal Land Bank. Competition for consumer lending is also noted from the local State Farm Insurance office. BNB's primary focus is to promote economic development both in Brady and in McCulloch County through its lending programs and active community involvement.

Various loan products offered include residential mortgages, home improvement, commercial, agricultural, and consumer loans. Total loans as of March 31, 2007, amount to \$49.3 million and

comprise 68% of total assets. The table on the following page reflects a detailed breakdown of BNB’s loan portfolio.

<b>LOAN TYPE</b>	<b>DOLLAR AMOUNT \$ (000)</b>	<b>% OF TOTAL LOANS</b>
Real Estate (RE) Farmland	13,693	27.8
RE Residential (1-4)	12,610	25.6
Commercial and Industrial	9,506	19.3
Consumer	5,221	10.6
RE Non-Farm Non-Residential	2,857	5.8
Construction and Development	2,414	4.9
RE Multifamily	1,478	3.0
Agricultural Production	1,281	2.6
Other	196	.4
<b>Total</b>	<b>49,256</b>	<b>100.0%</b>

*BNB’s executive officers are actively involved in assessing and meeting community needs through participation and support of local business development ventures.* Officers have supported the McCulloch County Industrial Foundation in its efforts to provide low- to moderate-income (LMI) housing to the City of Brady.

Based on its financial condition, resources, the local economy, product offerings, and competition, BNB has the ability to meet the various credit needs in its community. No legal impediments or other factors hinder the bank’s ability to provide credit in its AA. BNB received an “*Outstanding*” rating at the previous CRA examination conducted July 2002. Since the prior evaluation, there have been no complaints relating to the bank’s CRA performance.

## **DESCRIPTION OF McCULLOCH COUNTY**

BNB has designated all of McCulloch County as its AA. Principal communities located in the AA include the City of Brady, and the smaller surrounding communities of Melvin, Voca, Rochelle, and Lohn. Specific demographic data for this area is listed on the following page.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<b>Population</b>	
Number of Families	2,279
Number of Households	3,288
<b>Geographies</b>	
Number of Census Tracts	3
% Low-Income Census Tracts	0.00
% Moderate-Income Census Tracts	33.30
% Middle-Income Census Tracts	33.30
% Upper-Income Census Tracts	33.30
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	36,380
2006 HUD-Adjusted MFI	43,100
2005 HUD-Adjusted MFI	42,000
2004 HUD-Adjusted MFI	42,000
<b>Economic Indicators</b>	
Unemployment Rate	2.89
2006 Median Housing Value	45,333
% of Households Below Poverty Level	23.2

This AA is made up of three contiguous census tracts (CTs), which surround and include the one-bank office located in the City of Brady. This area meets the requirements of the regulation and does not arbitrarily exclude low- to moderate-income (LMI) geographies.

Of the three CTs that comprise McCulloch County, one is designated moderate-income, one middle- and one upper-income. There are no low-income CTs within the AA. With approximately 5,500 of the county's 8,200 residents, the City of Brady is the most populous CT. Based on the 2000 census, the City of Brady is located in moderate- and upper-income CTs.

Approximately 28% of the families in the AA are considered low-income. Moderate-income families approximate 18% of the population, while middle- and upper-income families comprise the remaining 54%. There are 4,184 housing units in the AA, of which 57% are owner-occupied, 21% are renter-occupied, and 22% are vacant.

Income data from the 2000 census indicated that the median family income (MFI) for the county was \$36,380. Updated income information from the Department of Housing and Urban Development (HUD) states that the 2006 Texas non-metropolitan MFI is \$43,100. Major area employers include the Brady Independent School District, Load Craft, and Heart of Texas Memorial Hospital. Together, these three companies employ approximately 30% of the workforce. A Super Wal-Mart is expected to open by the end of 2007. According to 2000 census information approximately 23% of AA households are below the poverty level.

A community leader was contacted during this evaluation in order to gather more current information on the nature of the community and potential lending opportunities in the AA. The

Tourism Coordinator of the Brady/McCulloch County Chamber of Commerce was contacted. This individual indicated the need for special home loan financing for low-income borrowers. She stated that many of these borrowers are unable to meet the down payment requirements of local lenders. The community contact has an overall favorable perception of the local financial institutions.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Management has been successful in meeting the credit needs of its AA, including LMI individuals, consistent with its resources and capabilities.

### Loan-to-Deposit Ratio

BNB's LTD ratio is very good, given its asset size, financial condition, and lending opportunities in the AA. Since the last CRA examination, the LTD ratio has remained relatively constant with a ratio of approximately 73% as of March 31, 2007. The average LTD ratio over the past 19 quarters was 71%. The average LTD ratio of three similarly situated banks headquartered in the local area ranged from 24.4% to 64.4% during this same time period. The asset size and LTD ratio for BNB and its competing banks are listed below.

INSTITUTION	ASSETS AS OF 03/30/07	AVERAGE LTD RATIO % (*)
Commercial NB – Brady	82,750	58.15
City NB – San Saba	52,766	24.43
Llano NB – Llano	86,278	64.35
<b>Brady NB</b>	<b>72,855</b>	<b>70.97</b>

Note: The average LTD ratio for all banks is for the period from July 2002 through March 2007, (latest date information was available).

### Lending in Assessment Area

A majority of the loans originated by BNB are in its AA. In order to assess performance for these criteria, we reviewed a sample of 125 loans originated between 2004 and 2006. Our sample included 44 residential real estate loans, 28 farmland real estate loans, 29 consumer, and 24 commercial loans.

Our analysis determined that 89% of the number and 54% of the dollar amount of 1-4 family residential loans were made within the AA. The lower percentage of the dollar volume is attributable to larger out-of-territory mortgage loans including loan participations with its sister banks - Citizens Bank, NA in Abilene, and First National Bank of Ballinger in Ballinger.

We further determined that 71% of the number and 72% of the dollar amount of farmland real estate loans were made within the AA. BNB has seen an increase in demand for local agricultural real estate loans by out-of-territory customers for recreational purposes. Management expects the number of this type of borrower to increase. To assess whether or not the loans are made within the AA, we review the property location (not necessarily the borrower's location). Additionally, based on our sample, 92% of the number and 97% of the dollar amount of commercial loans were made in the

AA; 79% of the number and 77% of the dollar amount of consumer loans were made in the AA. The following table provides details by product type.

<b>TOTAL LOANS REVIEWED</b>								
	<b>IN ASSESSMENT AREA</b>				<b>OUT OF ASSESSMENT AREA</b>			
<b>Loan Type</b>	<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>*</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Residential	39	89.0	1,883	54.0	5	11.0	1,625	46.0
Real Estate- Farmland	20	71.0	3,929	72.0	8	29.0	1,545	28.0
Commercial	22	92.0	704	97.0	2	8.0	23	3.0
Consumer	23	79.0	231	77.0	6	21.0	70	23.0
<b>Total Reviewed</b>	<b>104</b>	<b>83.0</b>	<b>6,747</b>	<b>67.0</b>	<b>21</b>	<b>17.0</b>	<b>3,263</b>	<b>33.0</b>

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

Overall, BNB’s loan portfolio reflects an overall satisfactory distribution of mortgage, consumer, and commercial loans to individuals of various income levels and businesses of different sizes. In order to assess the bank’s performance, a sample of 97 loans originated between 2004 and 2006 were reviewed and data collected was compared to current census demographic criteria.

<b>RESIDENTIAL REAL ESTATE</b>								
<b>BORROWER INCOME LEVEL</b>	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
<b>% of AA Families</b>	<b>28.0</b>		<b>18.2</b>		<b>23.5</b>		<b>30.3</b>	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
<b>Total</b>	<b>5.1</b>	<b>1.5</b>	<b>15.4</b>	<b>8.8</b>	<b>23.1</b>	<b>20.2</b>	<b>56.4</b>	<b>69.5</b>

A sample of 44 mortgage loans was reviewed during this evaluation. The analysis of mortgage loans reflects a distribution of loans to moderate-income families that is in line with area demographics. The distribution of mortgage loans made to low-income families does not meet the characteristics of the AA. Factors contributing to this circumstance include the poverty level of the AA (23%) and the relatively low supply of affordable homes. BNB works with McCulloch County Industrial Foundation (MCIF), to bring qualified affordable LMI housing to the community.

<b>CONSUMER</b>								
<b>BORROWER INCOME LEVEL</b>	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
<b>% of AA Households</b>	<b>32.3</b>		<b>15.9</b>		<b>19.7</b>		<b>32.1</b>	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
<b>Total</b>	<b>8.7</b>	<b>5.2</b>	<b>13.0</b>	<b>8.8</b>	<b>34.8</b>	<b>34.3</b>	<b>43.5</b>	<b>51.7</b>

The distribution of consumer loans to moderate-income households meets area demographics. However, based on our sample, the lending distribution to low-income households did not meet the area demographics. The primary reason is the poverty level in the AA (23%).

<b>BORROWER DISTRIBUTION OF LOANS TO BUSINESSES</b>		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses <sup>3</sup>	92.8	7.2
% of Bank Loans in AA (#)	91.9	9.1
% of Bank Loans in AA (\$)	70.9	29.1

The percentage of the number of the bank’s loans in the AA to small businesses is in-line with area demographics.

### **Geographic Distribution of Loans**

Overall, the geographic distribution of loans within the AA meets the standard for satisfactory performance. A review of 44 mortgage and 29 consumer loans originated between 2004 and 2006 is detailed in the following tables.

<b>RESIDENTIAL REAL ESTATE</b>								
CENSUS TRACT INCOME LEVEL	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner-Occupied	0.0		61.9		19.2		18.9	
	% of Number	% of Amount						
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>76.9</b>	<b>76.8</b>	<b>7.7</b>	<b>8.4</b>	<b>15.4</b>	<b>14.8</b>

<b>CONSUMER</b>								
CENSUS TRACT INCOME LEVEL	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0.0		66.1		16.7		17.2	
	% of Number	% of Amount						
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>65.2</b>	<b>70.8</b>	<b>13.0</b>	<b>10.5</b>	<b>21.8</b>	<b>18.7</b>

The geographic distribution of commercial loans to businesses located in moderate-income CTs does not meet the area demographics. This is due to the level of competition in Brady. Additionally, BNB purchases many of its commercial loans from its sister banks which are outside the AA. The percentage of the amount of the AA loans is below the percentage of the number of loans in the AA. The reason for this is the amount of the loans to businesses located in moderate-income census tracts is small. This is especially true when compared to the dollar amount of loans made to businesses located in middle- and upper-income CTs.

<b>COMMERCIAL</b>								
<b>CENSUS TRACT INCOME LEVEL</b>	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
<b>% of AA Businesses</b>	<b>0.0</b>		<b>76.7</b>		<b>13.8</b>		<b>9.5</b>	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>63.6</b>	<b>36.0</b>	<b>9.1</b>	<b>28.8</b>	<b>27.3</b>	<b>35.2</b>

### **Responses to Complaints**

BNB has received no complaints relating to the bank's performance under the CRA.

### **Fair Lending or Other Illegal Credit Practices Review**

BNB has not been subjected to a Fair Lending review. However, a review of complaint records and consumer files during this evaluation period provided no indication of disparate treatment.