



## **PUBLIC DISCLOSURE**

April 3, 2017

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

The Brady National Bank  
Charter Number 7827

101 S. Blackburn  
Brady, TX 76825

Office of the Comptroller of the Currency  
San Antonio North Field Office  
10001 Reunion Place  
Suite 250  
San Antonio, TX 78216-4165

**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 Outstanding.**

Brady National Bank's (BNB) overall Community Reinvestment Act (CRA) performance is outstanding given the bank's satisfactory lending performance and outstanding community development (CD) activities.

- BNB's loan-to-deposit (LTD) ratio is reasonable, averaging 48% during the evaluation period, slightly exceeding peer levels of 45% for the same timeframe.
- BNB originated a substantial number of loans - 83% - inside McCulloch County, its assessment area (AA).
- BNB's distribution of loans to individuals of different income levels and to businesses of different sizes is excellent, exceeding the standards for satisfactory performance, given the demographics of the AA.
- The geographic distribution of loans reflects excellent dispersion, exceeding the standards for satisfactory performance.
- BNB has demonstrated excellent responsiveness to AA credit needs, as well as CD related activities.

## **SCOPE OF EXAMINATION**

We evaluated BNB's performance under the CRA using interagency Small Bank CRA examination procedures. The procedures include a lending test that evaluates the bank's record of meeting AA credit needs through lending related activities. The consideration and evaluation of CD activities is optional under the Small Bank examination procedures. At management's request, we evaluated CD activities during this evaluation period.

The lending test covered all loan related activities since the previous CRA evaluation in August 2011 through year-end 2016. To evaluate borrower and geographic distributions, we selected samples of the bank's primary loan products, commercial loans and consumer loans. The sample included 30 loans for each product as well as a sample of 20 residential loans. While the number of residential loans during the evaluation period was smaller than commercial and other consumer loan products, we sampled these loans to help evaluate the bank's responsiveness to AA credit needs. Our analysis placed more weight on loan distribution by borrower income level, which has a greater impact on the bank's customer base due to the distressed nature of the AA.

The CD evaluation covered activities submitted by management since the previous evaluation through April 3, 2017, the start date of this evaluation.

## DESCRIPTION OF INSTITUTION

BNB, a community bank, with one location, in Brady, Texas, had total assets of \$116 million at year-end 2016. The bank is a wholly-owned subsidiary of Texas Country Bancshares, a two-bank holding company. BNB's affiliate sister bank, First National Bank of Ballinger, is located 70 miles north west of Brady. BNB's head office is located in downtown Brady and has an adjacent drive-through facility. The bank has two automated teller machines (ATMs), one at the head office and one located on one of the major thoroughfares in the city of Brady. The ATMs do not take deposits.

BNB offers a variety of traditional loan and deposit related products and services as well as trust and brokerage services. BNB recently established a relationship to originate and sell mortgage loans in the secondary market. This relationship provides customers with additional options for residential loans, including products with longer terms, fixed rates, lower down payments, and government guarantees.

Customers have 24-hour access to their accounts through the bank's website and mobile banking. They can access account balance information, transfer funds and pay bills online through the website or through mobile banking. BNB offers business related services such as ACH Origination, remote deposit capture and merchant services, and makes remote check deposit services available to retail customers through the mobile banking application.

BNB's primary competitors include another local community bank in Brady, the Federal Land Bank, and Central Texas Farm Credit. Other competitors include banks in the surrounding counties. BNB's primary focus is business lending, promoting local economic development and stability, and consumer and residential lending. At year-end 2016, approximately 43% of the bank's assets were centered in the loan portfolio. The table below summarizes the bank's loan portfolio.

<b>Loan Portfolio Summary by Loan Product</b>		
<b>December 31, 2016</b>		
<b>Loan Category</b>	<b>Dollar Volume Outstanding (000's)</b>	<b>% of Outstanding Dollars</b>
Commercial Loans	26,842	54%
Residential Loans	13,579	27%
Ag and Farm Related Loans	6,551	13%
Consumer Loans	2,839	6%
<b>Total Loans</b>	<b>49,811</b>	<b>100%</b>

BNB has the financial capacity to meet community credit needs. No legal impediments or other factors, besides the local economy, hinder the bank's ability to provide credit within the AA. BNB received a "Satisfactory" rating in the previous CRA evaluation dated August 10, 2011.

## DESCRIPTION OF ASSESSMENT AREA

The CRA requires financial institutions to define the AA in which it will be evaluated. BNB has designated its AA as all of McCulloch County. This AA meets the requirements of the regulation and does not exclude any low- or moderate-income (LMI) areas. Principal communities located in the AA include the city of Brady, which is the county seat, and smaller surrounding communities of Lohn, Melvin, Rochelle, and Voca.

The AA is located in rural central Texas approximately 80 miles south east of San Angelo, Texas, the nearest metropolitan area. Brady is 120 and 140 miles respectively from the larger cities of Austin and San Antonio. McCulloch County had population of 8,283 at the 2010 Census. More recent data from July 2016 reflected a 1.3% decline in population since the census. Brady is the largest city in the county with 5,475 or 33% of the population.

The AA includes three contiguous census tracts (CTs), two upper-income tracts and one distressed middle-income tract. High poverty rates in Brady have resulted in a distressed designation by the banking agencies for the middle-income CT every year since the previous CRA evaluation. Census data from 2010 reported a poverty rate of almost 20% for the county, which exceeds state and national averages. The poverty rate in the middle-income CT that includes the entire city of Brady was even higher at 21%. In addition, the 2016 median family income level of \$52,800 for the AA is below state and national averages.

According to the United States Bureau of Labor and Statistics (BLS), monthly unemployment rates in the county have ranged from a low of 3.1% in December 2014 to a high of 6.2% in August 2015. The local employment conditions have fluctuated during the evaluation period due in part to the impact of lower oil prices on larger employers in the AA. Despite high poverty rates, BLX reports the average unemployment rate for the AA at year-end 2016 was 4.6%, which is slightly lower than the 2016 state average of 4.7% and the national average of 4.9%. Retail sales in the AA have also been negatively impacted by local economic conditions. The Texas Comptroller of Public Accounts reported a decline in retail sales in 2015 and through third quarter 2016.

The county supports an agricultural community and is a popular location for hunting and ranching. It is also a popular retirement location with 19% of the population over 65 years of age. Housing costs are low with a median home value of approximately \$74.5 thousand. The community sponsors a nationally recognized World Championship Barbeque Goat Cook-Off annually that draws 15,000 people and provides a boost to the local economy according to the Brady Chamber of Commerce.

Major employers in the AA include the local school district, local and county governments, the local hospital and health care system, Wal-Mart, and several larger businesses supporting the oil and gas production industry, including Loadcraft Industries, Carmeuse Industrial Sands, and Cadres Proppants.

With three major highways intersecting the city of Brady, it is a retail center for surrounding communities. Of the 583 businesses and farms reported in the AA by Dunn & Bradstreet in 2016, the majority (84%) have single locations and 74% reported revenues less than \$500 million. Selected demographic information is summarized in the following table.

Demographic Information for the McCulloch County Assessment Area					
Demographic Characteristics	#	Low %	Moderate %	Middle* %	Upper %
Geographies (Census Tracts)	3	0%	0%	33%	67%
Population by Geography	8,283	0%	0%	66%	34%
Owner-Occupied Housing by Geography	2,218	0%	0%	58%	42%
Business by Geography	523	0%	0%	77%	23%
Farms by Geography	60	0%	0%	38%	62%
Family Distribution by Income Level	2,038	27%	14%	17%	42%
Household Distribution by Income Level	3,098	30%	18%	14%	38%
Avg. Median Household Income		35,681		Avg. of Median Home Value	\$74,508
Avg. Updated FFIEC Median Family Income 2016		59,100		Unemployment Rate (2016)	4.6%
Households Below Poverty Level		19.82%			

Source: U. S. Census Bureau 2010, Dunn & Bradstreet, U.S Bureau of Labor and Statistics, \* Distressed Middle-Income CT - FFIEC

During a CRA evaluation, various persons and/or organizations within BNB’s AA are contacted to gain insight on local economic conditions and credit needs. Credit needs are also evaluated by reviewing CRA Performance Evaluations (PEs) of comparable banks and those banks operating in the same areas. As part of this evaluation for BNB, the contacts included a local community organization, a small business owner, and a municipal organization. The contacts mentioned weaker economic conditions due to lower oil prices, but noted recent improvements in the local economy with more traffic from area sand plants and increased retail activity. The contacts also mentioned the aging housing inventory and a need for more rental properties. In addition, the contacts shared the need for improvements in the local water treatment facility and the plans for improving the facility. All contacts had favorable comments regarding the involvement of local banks in community activities and the banks’ responsiveness to AA credit needs.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

BNB’s average quarterly LTD ratio since the last CRA PE is reasonable, considering the demographics of the AA and economic environment over the evaluation period. To assess BNB’s performance, we compared the bank’s quarterly average LTD ratio with the other local bank and with banks of similar size in the neighboring counties. As reflected in the following table, the average LTD ratios for the other four banks ranged from 30% to 54%. BNB’s ratio of 48% exceeded the 45% average ratio for the four institutions, but BNB’s ratio was slightly lower than Commercial National Bank of Brady, the most similarly situated competitor.

Bank Name	City, State	County	Total Assets (\$000s)	Average LTD Ratio
The Brady National Bank	Brady, TX	McCulloch	\$116,184	48%
The Commercial National Bank of Brady	Brady, TX	McCulloch	\$159,707	54%
Mason Bank	Mason, TX	Mason	\$109,043	48%
Texas Financial Bank d/b/a The Eden State Bank	Eden, TX	Concho	\$99,921	30%
First State Bank	Paint Rock, TX	Concho	\$96,342	49%

BNB's average ratio has declined from the previous evaluation period due in part to an increase in local public funds, which the bank cannot use to fund loans. Instead, BNB must purchase investments to pledge against these deposits. When these funds are excluded, the bank's average LTD ratio was 61%.

Since the previous evaluation, BNB has originated or purchased over two thousand loans totaling \$90 million. Over 50% of these loans were consumer loans with short terms and a small average loan size of \$7 thousand. Several of the bank's small business loans have been responsive to AA credit needs for start-up businesses and new job creation. The bank has also made loans in support of medical services for the community and for local non-profits, including the local volunteer fire department and animal shelter. Larger community development related loans to one of the larger employers in the AA have enhanced the bank's lending activities and helped to promote economic development in the AA through job retention.

### Lending in Assessment Area

BNB's lending performance inside the AA is reasonable. As reflected in the table below, BNB originated a substantial number of loans inside its AA. The majority of loans outside the AA were larger purchased loans, some of which were participations from the BNB's affiliate bank.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
		%	#	%		\$	%	\$	%	
Consumer Loans	1,300	87%	202	13%	1,502	9,127	82%	1,967	18%	11,095
Business Loans	309	79%	81	21%	390	17,840	32%	38,677	68%	56,517
Residential Loans	113	74%	39	26%	152	7,715	60%	5,188	40%	12,903
Ag Loans	102	80%	25	20%	127	4,999	56%	3,991	44%	8,990
<b>Totals</b>	<b>1,824</b>	<b>84%</b>	<b>347</b>	<b>16%</b>	<b>2,171</b>	<b>39,681</b>	<b>44%</b>	<b>49,822</b>	<b>56%</b>	<b>89,504</b>

Source: Validated Bank Records

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

BNB's distribution of loans to borrowers of different income levels and to businesses of different sizes is excellent, exceeding the standards for satisfactory performance.

#### *Business Loans*

BNB's lending activity reflects excellent penetration of loans to businesses with annual revenues less than or equal to \$1 million (small businesses). As shown in the following table, the number of loans to small businesses significantly exceeded AA demographics.

<b>Borrower Distribution of Loans to Businesses in Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	77%	6%	17%	100%
% of Bank Loans in AA by #	90%	10%	N/A	100%
% of Bank Loans in AA by \$	67%	33%	N/A	100%

Source: Loan sample (30 Small Business Loans); Dunn and Bradstreet data.

The dollar volume of loans to small businesses was lower than AA demographics, but this percentage was impacted by two large loans to businesses with annual revenues greater than \$1 million. The majority of loans sampled (87%) were small loans less than \$100 thousand. None of the loans sampled exceeded \$500 thousand. The small loan size is another indicator of the bank’s willingness to lend to smaller businesses in the AA.

### **Consumer Loans**

Consumer loan distributions are excellent. As reflected in the table below, BNB significantly exceeded AA demographics in the penetration of loans to borrowers with LMI levels.

<b>Borrower Distribution of Consumer Loans in Assessment Area</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	30%	37%	18%	33%	14%	13%	38%	17%

Source: Loan Sample 2015-2016; 2010 U.S. Census data.

### **Residential Loans**

Residential lending activity is reasonable. BNB’s lending performance is below AA demographics for low-income borrowers, but the bank’s penetration of residential loans among moderate-income borrowers exceeds AA demographics.

<b>Borrower Distribution of Residential Real Estate Loans in Assessment Area</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Residential Real Estate	27%	5%	14%	15%	17%	45%	42%	35%

Source: Loan Sample 2015-2016 (20 Loans). 2010 US Census Data

### **Geographic Distribution of Loans**

Although the number of defined geographies includes only three CTs, the geographic distribution of loans reflects excellent dispersion, as the majority of the loans were in the distressed middle-income CT.

**Business Loans**

BNB’s dispersion of business loans slightly exceeded AA demographics in the distressed middle-income area as reflected in the chart below.

Geographic Distribution of Loans to Businesses in Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Business	0%	0%	0%	0%	77%	77%	23%	23%

Source: Loan Sample 2015- 2016, 2010 D & B data.

**Consumer Loans**

BNB’s distribution of consumer loan reflects reasonable dispersion as shown in the following table.

Geographic Distribution of Consumer Loans in Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	0%	0%	0%	0%	64%	60%	36%	40%

Source: Loan Sample 2015-2016; 2010 U.S. Census data.

**Residential Loans**

BNB’s distribution of residential loan reflects excellent dispersion, especially in the distressed, middle-income area, significantly exceeding AA demographics.

Geographic Distribution of Residential Real Estate Loans in Assessment Area								
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
Residential Real Estate	0%	0%	0%	0%	58%	80%	42%	20%

Source: Loan Sample 2015-2016 (20 Loans). 2010 US Census Data

**Qualified Investments and Community Development Services (Optional)**

BNB’s CD investment and service activities are excellent, reflecting responsiveness to AA needs.

### ***CD Services***

BNB's officers are actively involved in the local community and provide financial expertise by serving on several local boards, including the city Planning & Zoning Board, the local Hospital Board, and the Housing Authority Board.

During the evaluation period, BNB also sponsored two events for the Texas Mission of Mercy, which provided free dental services to AA residents through the Texas Dental Association's non-profit Smiles Foundation. The foundation focuses on individuals who could not otherwise afford the services offered. BNB made in-kind donations for food and promotional services approximating \$30,000 for each event in 2012 and 2016. BNB employees volunteered and cooked for the all-day event, raising approximately \$4 thousand each year for the benefit of the Smiles Foundation. The free clinic benefitted 150 patients in the AA. Bank-sponsored events have also supported the local library and daycare programs that benefit LMI families.

BNB also supports financial literacy programs for local schools with the purchase of curriculum materials for "Banking Is," the high school program and "Clay Piggy," the elementary school program.

BNB's physical locations and online services are reasonably accessible to the entire community, including LMI individuals. BNB's deposit checking products for consumers are all low-cost with no minimum balance requirements. Monthly fees range from \$2.00 - \$6.95.

### ***Investments***

BNB's CD investment activities are excellent for a bank its size. During the evaluation period, BNB purchased two investments in Small Business Investment Companies (SBIC), which focus on economic development through lending and equity investments in small to medium size businesses. These funds focus on investments in broader statewide and regional areas, including the bank's AA. At April 3, 2017, BNB's book value in the SBIC investments totaled \$292 thousand with commitments to fund up to a total of \$800 thousand. The Small Business Administration (SBA) regulates and administers the SBIC program and in the case of BNB's investments, the SBA also provides funding through government guaranteed debt. The SBIC investments are responsive to economic development needs, including job creation and retention, and are complex due to the involvement of private and government investors, and regulatory licensing requirements of the SBICs.

### **Responses to Complaints**

BNB has not received any complaints related to its CRA performance during the evaluation period.

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

Pursuant to 12 CFR 25.28(c), or 12 CFR 195.28 (c), in determining a national bank's (bank) or federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.