



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 8, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Brady National Bank
Charter Number: 7827**

**101 South Blackburn
Brady, Texas 76825**

**Office of the Comptroller of the Currency
Southwestern District
500 North Akard, 1600 Lincoln Plaza
Dallas, Texas 75201-3394**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income (LMI) neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the CRA performance of **The Brady National Bank (BNB), Brady, Texas** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of May 8, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **Outstanding**.

- BNB's lending performance has been very good since 1994. The loan portfolio has grown 44 percent in the past three years. The loan-to-deposit ratio has increased from 37 percent at the last CRA examination to 68 percent on March 31, 1997.
- Approximately 85 percent of new loans are within the bank's community.
- BNB has demonstrated an exceptional willingness to extend loans to small businesses and small farms. Especially noteworthy are the efforts to extend loans to businesses that have helped create and retain jobs in the community.
- The bank has made loans in all areas of the community, including LMI areas.
- The bank has expanded services which enhance the availability of credit. New services include loan-by-phone and providing loan applications at the local Wal-Mart.
- Management has also provided financial advice and expertise to local government and various organizations that promote community development and affordable housing.

The following pages further describe the BNB's CRA performance.

The following table indicates the performance level of **The Brady National Bank** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>The Brady National Bank</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan to Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different sizes		X	
Geographic Distribution of Loans	X		
Response to Complaints	Not Applicable, no complaints relating to the bank's CRA performance have been received.		

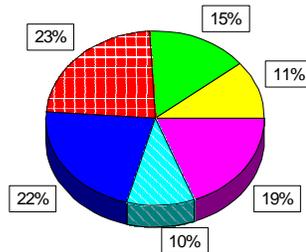
DESCRIPTION OF INSTITUTION

BNB is a \$49 million bank located in Brady, Texas. The bank was chartered in 1905. The majority of stock is owned by Texas Country Bancshares, Inc., a locally owned bank holding company. BNB is affiliated with a \$42 million bank in Ballinger, Texas, which is also owned by the holding company. Ballinger is approximately 75 miles west of Brady. BNB's main office and drive-through facility are located in downtown Brady. The bank also has two automated teller machines (ATMs), located in and adjacent to convenience stores on major thoroughfares. In December 1995, this institution purchased a local branch office of Bank of America. This office was closed in 1996, but the closing did not have a negative impact on customer convenience as the branch was located just a block from BNB's main office.

The institution's primary focus is to promote economic development in Brady and McCulloch County through its lending programs and community involvement. The bank offers various types of loans for residential mortgages, home improvement, commercial businesses, ranch and farm land, agricultural production, as well as loans for various consumer purposes. BNB also offers credit cards and participates in government guaranteed small business and agricultural-related loan programs. Loans as a percentage of assets approximated 63 percent on March 31, 1997. Loan distribution on March 31, 1997 is provided below.

Loan Distribution

As of 3/31/97



Ranching and the agricultural industry support the local economy. Agricultural and livestock products include cattle, sheep, goats, grains, cotton, and peanuts. Other local industries include sand mining, resin coating sand, wool & mohair scouring and combing, and oil field/agricultural equipment manufacturing. Several new small businesses, including a computer parts maker, a hotel, and several restaurants have opened in the past two years. Seasonal hunting and tourism

provide additional support to the local economy. The largest employers include the local school district, Wal-Mart, the City of Brady, a wool scouring plant, the local hospital, sand-related companies, and an oil field equipment manufacturer.

Primary competitors include another locally owned bank and a branch of a Bryan, Texas savings and loan. Two finance companies also compete for the consumer loan base. Based on its financial condition, the local economy, product offerings, competition, and prior performance, BNB has the ability to meet the various needs of its community. At the last CRA examination in August 1994, the bank's CRA rating was "Satisfactory." No legal impediments or other factors hinder the bank's ability to provide credit.

DESCRIPTION OF ASSESSMENT AREA

BNB has designated McCulloch County as its assessment area. This area includes the city of Brady and the smaller surrounding communities of Melvin, Voca, Rochelle, and Lohn. McCulloch County is geographically located in the center or "heart" of Texas.

The 1990 census data indicates that McCulloch County is divided into four block numbering areas (BNAs). The city of Brady represents the largest populated BNA, with approximately 6,000 people. The 1990 census designated the entire city of Brady as a *moderate income* BNA. The census designated one other *moderate income* BNA in the county, which includes the communities of Melvin and Lohn. The BNA including Voca is designated as a *middle income* area, and the BNA surrounding Rochelle is an *upper income* area.

The entire population of McCulloch County was 8,778 in the 1990 census. More recent 1995 data from the Lower Colorado River Authority (LCRA) indicates that the county population has grown approximately 4 percent since 1990. Brady's population has grown 12 percent. Census data states that 22 percent of the population is over 65. Recent employment statistics reveal that the jobless rate for McCulloch County is approximately 5 percent, which is below the average for the state.

Income data from the 1990 census revealed that the median family income (MFI) for the county was \$21,864. Updated income information from the Department of Housing and Urban Development (HUD) states that the 1997 Texas nonmetropolitan MFI is \$31,500.

The following table shows the income distribution of *families* living in McCulloch County.

Income Level	Count	Percentage
Low Income	682	28.29%
Moderate Income	417	17.30%
Middle Income	481	19.95%
Upper Income	831	34.46%
Totals	2,411	100.00%

Source: U.S. Census Data

According to 1990 housing data as provided in the census, there are 4,424 housing units in the bank's assessment area of which 56 percent are owner occupied, 21 percent are rental properties, and 23 percent are vacant. Within the moderate income BNAs, which includes the city of Brady, the vacancy rate was lower at 18 percent. The median year built for housing was 1967, with a median value of \$47,300.

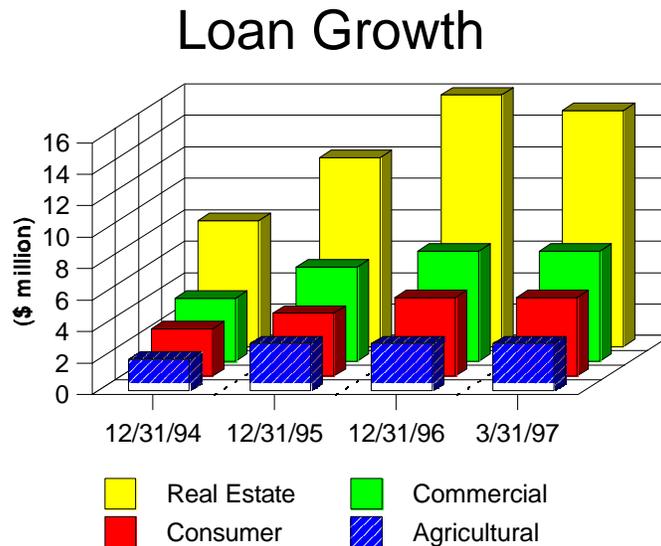
In order to gather more current information on the nature of the community and potential lending opportunities in the assessment area, we contacted three community members during this examination. One was a representative of local city government. Another contact was associated with an organization that provides affordable housing. The last contact was a representative of a governmental agency that provides assistance to area farmers and ranchers. All comments on the bank's performance were positive, especially with regards to BNB's willingness to make farm and small business loans. Two community contacts mentioned a potential lending opportunity relating to a shortage of middle-income housing in the city. Contacts indicated that additional housing is needed to help meet growth trends and to help attract new businesses and industries to the area. Our sample of BNB's residential mortgage loans in 1996 indicated that approximately 30 percent were to middle-income borrowers. For further discussion on the bank's lending performance, please refer to the following paragraphs which summarize performance in each criteria specified in the CRA regulation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio is very good, given BNB's asset size, financial condition, and known credit needs of its assessment area. Since the last CRA examination, the LTD ratio has steadily increased from 37 percent to 68 percent on March 31, 1997. The average LTD over the 11 quarters since the last examination was 58 percent. The LTD of the bank's primary

competitor in Brady during this same time period was 61 percent. BNB's acquisition of the Bank of America branch had a negative impact on the LTD ratio. The bank acquired approximately \$7 million in deposits and only a nominal amount of loans. If these deposits are excluded, the bank's quarterly average LTD ratio would approximate 64%. Loan growth since 1994 is reflected in the graph below.



Management has focused on providing loans that will enhance economic and community development. The bank had provided loans to several new businesses in the area, which have provided new jobs for LMI individuals. Management has also demonstrated flexibility in working with the city and other commercial borrowers to help retain jobs in the community.

Lending in the Assessment Area

A significant portion of the bank's loans are within its assessment area. Verified reports reflect that 85 percent of loans made in 1996 and year-to-date 1997 were within the bank's assessment area. Approximately 78 percent of the dollar amount of these loans were within the assessment area. Reports for loan activity in 1995 reflected a similar volume of loans within its assessment area. This indicates that BNB is committed to its local community and takes an active role in meeting credit needs.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The loan portfolio reflects a good distribution among individuals of various income levels and an excellent dispersion to businesses of different sizes. We verified and utilized the bank’s monthly loan reports to assess performance under this criteria. As illustrated in the following table, BNB consistently lends to all applicants, regardless of their income category. The distribution to LMI is approximately 35 percent. Although this level of performance is slightly less than the LMI population in the area (45 percent), this level of performance was considered good in relation to the nature of the community, competition, and available lending opportunities. In addition, actual lending performance to LMI families and individuals may be slightly understated due to the bank’s practice of including business and farm loans in the middle- and upper-income categories. The table below reflects all lending activity in the past fifteen months.

Lending to Borrowers of Different Income Levels										
	Low- Income Families		Moderate- Income Families		Middle- Income Families		Upper- Income Families		Total	
Area Demographics	28.29%		17..30%		19.95%		34.46%		100.00%	
	#	%	#	%	#	%	#	%	#	%
Loan Distribution	185	13%	303	22%	146	10%	768	55%	1402	100%

We also selected a proxy to better assess the bank’s willingness to extend credit to LMI individuals. The proxy we used was loan size. While loan size does not provide a definite indicator of customer income, there is a general correlation between the two. Internal bank reports indicate that 45 percent of the loans made in the past four months have had original amounts of less than \$2,500. In 1996, approximately 25 percent of all consumer-related loans had original amounts of \$2,500 or less. This proxy further indicates BNB’s willingness to extend small loans to lower-income borrowers.

The majority of commercial loans have been to “small businesses” with revenues less than \$1 million. Since 1995, the bank has originated 394 commercial loans in the assessment area totaling \$15.7 million. The size of the commercial loans have also been small, with only one approximating \$1 million. This performance compares favorably to data from Dun & Bradstreet, which indicates that there are 226 businesses in the county with sales less than \$1 million.

BNB has also originated a number of small farm/agricultural loans in the assessment area. Since 1995, BNB has made 157 agricultural loans totaling approximately \$6 million. Substantially all the agricultural loans have been small loans with original amounts less than \$500M.

The chart below reflects a sample of 20 business and 20 farm loans made in the last 15 months. This sample further reflects the bank’s willingness to extend credit to small businesses and small farms. All (100 percent) of the agricultural loans were to farmers and/or ranchers with gross agricultural revenues less than \$500M and 80 percent of the business loans were to businesses with gross revenues less than \$1 million.

Loans to Small Businesses and Small Farms								
Revenue Ranges	< \$100M		\$100M -- \$500M		\$500M -- \$1 MM		> \$1 MM	
	#	%	#	%	#	%	#	%
Loan Type								
Agricultural	13	65%	7	35%	0	N/A	0	N/A
Commercial	7	35%	6	30%	3	15%	4	20%

Geographic Distribution of Loans

Lloan distribution reflects an excellent geographic dispersion throughout the assessment area. The geographic areas represented by the four BNA’s in the assessment area are too large to use in providing a meaningful analysis of BNB’s loan distribution, so we utilized BNB’s methodology for analyzing geographic loan distribution. The area characteristics were established by management using information from the local appraisal district. This methodology provides a more meaningful analysis of loan distribution than would be provided by BNAs.

The table below reflects BNB’s loan distribution by area since 1995.

Geographic Distribution of Loans										
	Brady LMI Areas		Brady Middle-Income Areas		Brady Upper-Income Areas		McCulloch County		Total	
Area Characteristics	5		3		1		NA		9	
	#	%	#	%	#	%	#	%	#	%
Bank’s Loan Distribution	924	41%	501	22%	40	2%	799	35%	2264	100%

Approximately 30 percent of the loans in McCulloch county were in the moderate-income BNA, which included the communities of Melvin and Lohn. The majority of the BNB’s loans were within the Brady city limits which is also a moderate-income BNA.

Response to Complaints

No complaints relating to CRA performance have been received by the bank.

Investment and Services

In addition to strong lending performance, BNB has identified additional ways to service the community.

Management has provided loan advisory services and financial expertise to the city, the Veterans Land Board, and the Central Texas Certified Development Corporation (CEN-TEX). Bank officers have assisted in the review of loan applications under the Veteran’s land program and various small business and housing programs offered by CEN-TEX. The CEN-TEX CDC benefits numerous central Texas communities with its affordable housing program, Neighborworks. The CDC also helps communities create and retain jobs through small business financing.

Complete banking services are available at the main office, which is reasonably accessible to the entire community. Since the previous examination, BNB has added several noteworthy services which enhance the availability of credit. These services include a loan by-phone program and providing loan applications at the local Wal-Mart for the financing of small appliances. Since the previous examination, BNB has also enhanced its deposit services by installing a new ATM and expanding drive-through hours to include Saturdays. The bank also offers lower cost deposit products for senior citizens and students.

Compliance with Fair Lending Laws and Regulations

A fair lending examination was conducted as part of this compliance examination of BNB. The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. No fair lending violations were identified.