



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 27, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Texas Gulf Bank, N.A.
Charter Number 10420**

**200 West Second Street
Freeport, TX 77541**

**Comptroller of the Currency
Houston East Field Office
1301 McKinney Street, Suite 3750
Houston, Texas 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.

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INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

Texas Gulf Bank, N. A. (TGB) satisfactorily meets the credit needs of its assessment area, including low- and moderate-income individuals in areas consistent with its resources and capabilities. This rating is supported by the following:

- The loan-to-deposit ratio is reasonable.
- A majority of loans and other lending-related activities are in the bank's assessment area.
- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects, a reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.

DESCRIPTION OF INSTITUTION

Texas Gulf Bank, N.A. (TGB) is a commercial bank headquartered in Freeport, Brazoria County, Texas. TGB is a wholly owned subsidiary of Texas Gulf Bancshares, Inc. (one bank holding company). As of the quarter ending June 30, 2001, TGB's total assets were \$199 million, with net loans to total assets of 45 percent. TGB is well capitalized with Tier 1 Capital representing 9.05 percent of total assets. TGB is a full service institution offering various commercial and retail banking services. Also, the bank provides fiduciary services through its trust department. TGB's primary product lines are commercial loans, residential real estate loans, and consumer loans. Applications for government guaranteed loans (FHA/VA) are taken and brokered to outside servicers. As reflected in Table 1 below, major lending activities are as follows:

Table 1

Loan Category	\$ (000)	Percent
Commercial Real Estate Loans	\$37,282	41%
Residential Real Estate Loans	\$23,838	26%
Commercial Loans	\$17,832	19%
Consumer Loans	\$7,798	9%
Agricultural Loans	\$4,539	5%
Total	\$91,289	100%

TGB serves the community from five locations all situated in Brazoria County. This includes the main office location and four branch office locations. In general the branch locations are full service, including drive-up service, and proprietary automated teller machines (ATMs). TGB has no legal or financial impediments that prevent their efforts to help meet the credit needs of the assessment area. The bank received a Satisfactory rating at the last CRA examination, prepared January 15, 1997.

DESCRIPTION OF BRAZORIA COUNTY ASSESSMENT AREA

TGB defines its assessment area as Brazoria County. Brazoria County is a Metropolitan Statistical Area (MSA) which is part of the larger Houston-Galveston-Brazoria Consolidated MSA. The assessment area includes 53 census tracts, which are designated as (11) moderate; (34) middle, (5) upper, and (3) are not applicable. The bank's assessment area complies with the legal requirements of the CRA and does not arbitrarily exclude low-or moderate- income areas.

The county seat of Brazoria County is located in Angleton, Texas. TGB's primary market is in the sector of Brazoria County known as Brazosport. Brazosport is a multi-city community located in south Texas at the mouth of the Brazos and San Bernard rivers, approximately 50 miles south of Houston. The area is comprised of nine cities: Brazoria, Clute, Freeport, Jones Creek, Lake Jackson, Oyster Creek, Quintana, Richwood and Surfside Beach.

Information derived from the 1990 Census Bureau and 2001 Housing and Urban Development Agency (HUD) reports the updated 2001 median family income for the assessment area of \$57,100. Based on this data, low-income families comprise 19% of the assessment area, moderate-income comprise 25%, middle-income comprise 19%, and upper-income families comprise 37%. Eight percent (8%) of the families are below poverty level. A summation of the assessment area demographics is detailed Table 2.

Table 2

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	50,892
Number of Households	64,352
<i>Geographies</i>	
Number of Census Tracts	53
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	21%
% Middle-Income Census Tracts	64%
% Upper-Income Census Tracts	9%
% Not Applicable Census Tracts	6%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$39,344
2001 HUD-Adjusted MFI	\$57,100
<i>Economic Indicators</i>	
Unemployment Rate	2%
2001 Median Housing Value	\$59,812
Owner-occupied Housing Units	59%
% of Households Below Poverty Level	10%

Area economic conditions are good and unemployment is at low levels. The major employment sectors are chemical, manufacturing, petroleum processing, offshore maintenance services, commercial fishing, and agriculture. Major employers are Dow Chemical, U.S. Contractors, Gulf States, Inc., Texas Department of Criminal Justice, School Districts, and BASF Corp.

There is strong competition in the assessment area from Dow Credit Union, which provides strong competition for consumer lending. Competition is also provided from nine other banks (community and branches of regional banks) as well as several non-financial institutions.

Management has identified residential mortgages as the primary credit needs within the assessment area. We made three community contacts with individuals knowledgeable of the economic and business development environment in the community. All of the contacts identified small business and affordable housing loans as the community's primary credit needs. Also, the contacts indicated that the bank needs to reach out to the minority communities more to determine the specific credits needs of these individuals. TGB has conducted meetings with minority community leaders and organizations in an effort to improve communication and determine how the bank can better meet their credit needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

TGB's loan-to-deposit ratio is reasonable and commensurate with its size, competition, available resources, lending activities, as well as the demographics of the assessment area. The loan-to-deposit quarterly average was 44% from 1997 through June 2001. The average loan-to-deposit ratio for local bank's sharing similar characteristics was 44%. TGB's loan-to-deposit ratio as of the quarter ending June 30, 2001 was 51%. The level of lending activity meets the standard for satisfactory performance. An historical comparison of TGB's loan-to-deposit ratio to the ratio of other local banks is illustrated in Table 3 on the following page. Table 4 illustrates the trend of TGB's loan-to-deposit ratio for the last five quarters.

Table 3

Institution	Assets (as of 03/31/01)	Average LTD Ratio
First State Bank	\$70 million	56%
First National Bank Lake Jackson	\$124 million	22%
Brazos National Bank	\$13 million	55%
<i>Texas Gulf Bank, N.A.</i>	<i>\$197 million</i>	<i>50%</i>

Table 4

Date	Total Loans (\$000)	LTD Ratio
June 30, 2000	\$86,132	47%
September 30, 2000	\$85,352	52%
December 31, 2000	\$87,894	44%
March 31, 2001	\$89,987	50%
June 30, 2001	\$91,667	51%

Lending in the Assessment Area

A majority of loans and other lending-related activities are in the bank's assessment area. TGB's lending in the assessment meets the standard for satisfactory performance. We tested and verified management's conclusions on lending in the assessment by analyzing a sample of loans originated since the last CRA examination. As illustrated in Table 5 on the following page, this analysis revealed that, 87% of the number and 85% of the dollar volume of loans originated are within the assessment area.

Table 5

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer	24	96%	\$184	86%	1	4%	\$29	14%
Residential RE	13	72%	\$1,026	67%	5	28%	\$515	33%
Small Business	18	90%	\$2,445	96%	2	10%	\$107	4%
Total Reviewed	55	87%	\$3,655	85%	8	13%	\$651	15%

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

The distribution of loans reflects, a reasonable penetration among individuals of different income levels and businesses of different sizes which meets the standard for satisfactory. We reviewed a sample of TGB's primary product lines consisting of residential, consumer, and business loans. Our analysis included a combination of 20 residential loans, 24 consumer loans, and 20 business loans. The analysis reflected a level of lending to low-income and moderate-income families, which was in line with the area demographics. As illustrated in Tables below, of the residential loans sampled, 30% of the number and 11% of the dollar volume were extended to low- or moderate-income borrowers. Of the consumer loans reviewed 71% of the number and 79% of the dollar volume were extended to low- and moderate-income borrowers. The sample of business loans reviewed found 50% of the number were extended to businesses with gross revenues of less than \$1 million per year.

Table 6

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	19%		19%		25%		37%	
	% of Number	% of Amount						
Total	20%	6%	10%	5%	20%	11%	50%	78%

Table 7

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	22%		18%		20%		40%	
	% of Number	% of Amount						
Total	46%	50%	25%	29%	12%	3%	17%	18%

Table 8

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	96%	99%
% of Bank Loans in AA #	50%	50%
% of Bank Loans in AA \$	20%	80%

Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area and meets the standard for satisfactory performance. We performed an analysis of residential, consumer, and business loans originated from March 31, 1997 through June 30, 2001. The analysis reflects lending in most tracts within the assessment area. The bank did not have any low-income tracts but lending in moderate-income tracts was significantly above area demographics. The geographic distribution loans are reflected in the Tables below.

Table 9

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	0%		17%		70%		14%	
	% of Number	% of Amount						
Totals	0%	0%	25%	19%	60%	59%	15%	22%

Table 10

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0%		17%		70%		14%	
	% of Number	% of Amount						
Totals	0%	0%	50%	39%	37%	43%	13%	18%

Table 11

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0%		21%		68%		11%	
	% of Number	% of Amount						
Totals	0%	0%	60%	74%	15%	16%	25%	10%

Qualified Investments and CD Services

The bank has provided several services and programs that serve to increase community development and redevelopment. The bank has originated loans to several churches, various government organizations, and several school districts. Also, the bank has several municipal holdings of local cities.

In July 2001, TGB provided funding for a local non-profit organization (EPD, Inc.) to purchase a new building and consolidate their operations. The main focus of this organization is to accommodate people with a variety of disabilities by providing meaningful employment to people who would otherwise be unemployed. The organization is located in a moderate-income census tract.

TGB is a major participant in the Texas Mainstreet Program for the city of Freeport. Freeport is located in a moderate-income census tract. The Mainstreet Program (of the Texas Historical Commission) assist cities in revitalizing their central business districts and preserves the historic buildings in the downtown area. TGB has approved a total pool amount of \$200 thousand (\$150 thousand for commercial and \$50 thousand residential) which will provide low interest loans for community development activities in Freeport. The minimum loan amount is set at \$2,500 and the maximum \$10 thousand with a requirement that 75% go toward exterior improvements and 25% to other improvements. The goal of the program is to encourage economic development. It is a partnership between business owners, residents and the City to ensure an economically viable downtown commercial district. The program will help create jobs in the area.

Responses to Complaints

Texas Gulf Bank has received no CRA-related consumer complaints since the prior CRA examination dated January 15, 1997.

Fair Lending Review

An analysis of 1997 - 2001 public comments and consumer complaint information, Home Mortgage Disclosure Act (HMDA) data, and small business and consumer lending data was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC determined a fair lending examination would not be conducted in connection with the CRA evaluation this year. The last fair lending exam was performed in 2000.