



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 10, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Brady National Bank
Charter Number 7827

101 S. Blackburn
Brady, TX 76825-0000

Office of the Comptroller of the Currency

ADC-SAN ANTONIO (8508) Field Office
Lincoln Plaza 500 North Akard Street, Suite 1600
Dallas, TX. 75201-3323

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.

Brady National Bank's (BNB) lending performance meets the standards for Satisfactory performance in meeting the known credit needs of its community.

- BNB's lending performance meets the standard for satisfactory performance. The bank's loan-to-deposit (LTD) ratio has averaged 67% during the evaluation period and is currently 55%.
- A majority of BNB's loans, 83% of the number and 96% 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 assessment area (AA) exceeds the standards for satisfactory performance.

SCOPE OF EXAMINATION

BNB was evaluated under the Small Bank examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The bank's two largest loan products are commercial and residential real estate. We chose a sample of commercial and consumer loans. While consumer loans are not one of the top two loan products by dollar amount, they do represent the highest volume by number originated. Between January 1, 2009 and June 30, 2011, the bank originated 1,145 consumer loans compared to only 70 residential real estate loans. Consumer loans are more representative of the bank's lending strategy.

The commercial and consumer lending test for BNB cover its performance from January 1, 2009 through June 30, 2011, and is representative of its lending strategy since the last CRA exam dated June 12, 2007.

DESCRIPTION OF INSTITUTION

BNB is an intrastate bank headquartered in Brady, Texas. Assets totaled approximately \$89 million as of June 30, 2011. The bank is a wholly-owned subsidiary of Texas Country Bancshares, a three-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 full banking services as well as insurance products and brokerage services. Customers are provided 24-hour banking service through Internet Banking (IB). 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. 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 commercial, residential mortgages, consumer, and agricultural. Total loans as of June 30, 2011, amount to \$47.1 million and comprise 53% of total assets. The table on the following page reflects a detailed breakdown of BNB's loan portfolio.

| Loan Portfolio Summary by Loan Product June 30, 2011 | | |
|---|----------------------------------|-------------------------------------|
| Loan Category | Dollar Volume \$(000) | % of Outstanding Dollars |
| Commercial (Including Real Estate) | 27,931 | 61.81% |
| Residential | 12,091 | 26.75% |
| Consumer | 5,168 | 11.44% |
| Total | 45,190 | 100% |

BNB's executive officers are actively involved in assessing and meeting community needs through participation and support of local business development ventures. Officers have funded several loans to support the Brady community, including most recently, the development of the new hospital. They are also involved in community fundraising and supporting the Brady youth.

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 a "*Satisfactory*" rating at the previous CRA examination conducted June 2007.

DESCRIPTION OF ASSESSMENT AREA(S)

The Community Reinvestment Act requires a financial institution to define the AA in which it will be evaluated. 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. The AA includes three contiguous census tracts ranging from moderate to upper income. See table below for demographic information.

| Demographic Information for Brady National Bank AA | | | | | |
|---|----------|--------------|-------------------|-----------------|----------------|
| | # | % Low | % Moderate | % Middle | % Upper |
| Geographies (Census Tracts) | 3 | 0 | 1 | 1 | 1 |
| Population by Geography | 8,205 | 0 | 66.79% | 16.12% | 17.09% |
| Owner Occupied Housing Units by Geography | 4,184 | 0 | 61.94% | 19.18% | 18.88% |
| Businesses by Geography | 713 | 0 | 77.77% | 13.04% | 9.96% |
| Farms by Geography | 85 | 0 | 34.12% | 48.24% | 17.65% |

| | | | | | |
|--|--------|------------------------------------|--------|-------|-------|
| Family Distribution by Income Level | 2,279 | 27.99 | 18.21 | 23.52 | 30.38 |
| Household Distribution by Income Level | 3,288 | 32.30 | 15.85 | 19.65 | 32.21 |
| | | | | | |
| Census Median Family Income (MFI) | 32,067 | Median Housing Value | 45,333 | | |
| HUD – Adjusted MFI: 2010 | 46,500 | Households Below the Poverty Level | 23.24% | | |
| HUD – Adjusted MFI: 2009 | 46,500 | Unemployment Rate | 3.79% | | |
| HUD – Adjusted MFI: 2008 | 46,500 | | | | |

The AA is located in rural central Texas, approximately 130 miles from the Austin, Texas metropolitan statistical area. The poverty level in the AA is higher than the national poverty level. According to the 2009 statistic, 14.3% of Americans lived in poverty compared to 23% of the population in the AA.

Despite a higher poverty rate, the unemployment rates in the AA are well below national and state averages at 3.79%. According to the US Bureau of Labor Statistics, the July 2011 unemployment rate for the nation was 9.1%, and the unemployment rate for the state of Texas in June 2011 was 8.2%.

The main employers in the area are the Brady Independent School District, Load Craft, Walmart, and Heart of Texas Memorial Hospital. The main industries are Services, Retail, and Agriculture. Of the 798 business, 90% are single location businesses with their sole operations located in the AA. The majority of businesses, 78%, have revenues below \$1 million.

In conducting the assessment of the bank's performance, we contacted two members of the community. The contacts were from the Brady Chamber of Commerce (Chamber) and the McCulloch County Courthouse (Courthouse). Both contacts stated the area economy is improving and doing well compared to other areas in the nation. The contacts' perception of the bank's involvement in the community was positive. The contact from the Chamber stated the bank has always been willing to lend for community deployment projects and that the staff is very community minded and willing to support local youth and fundraising events.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Lending Test

BNB's performance under the lending test is outstanding considering the performance context and needs of its AA.

Loan-to-Deposit Ratio

BNB's loan-to-deposit (LTD) ratio meets the standards for satisfactory performance. The ratio over the past eighteen quarters since the last CRA exam averaged 67% and is currently 55%. To assess BNB's performance, we compared it with three other similarly located banks. LTD ratios ranged

from 25% to 58% with the average of 52% for all four institutions being BNB has the highest average LTD compared to the similarly situated banks. Commercial National Bank of Brady is the closest of the three comparable banks and represents BNB's local competition. The other two banks are smaller and slightly further away, but still represent similar rural community characteristics.

| INSTITUTION | ASSETS (000s) As of 6/30/2011 | AVERAGE QUARTERLY LTD RATIO As of 6/30/2011 |
|------------------------------------|--|--|
| Commercial National Bank of Brady | \$117,387 | 56.85% |
| The City National Bank of San Saba | \$53,447 | 24.54% |
| Menard National Bank | \$34,121 | 58.46% |
| Brady National Bank | \$89,325 | 67.03% |

Lending in Assessment Area

BNB's performance in lending within the AA meets the standards of satisfactory performance. The majority of the number and dollar amount of loans sampled were made within the assessment area. Of the twenty commercial loans in our sample, 85% were made within the AA. Of the twenty consumer loans in our sample, 80% were made within the AA. A total dollar volume of \$1.3 million in loans were reviewed in the two loan samples. Approximately 96%, or \$1.2 million, of the total dollar amount of loans were inside the AA. The following table illustrates the results of our analysis.

| Loan Type | Number of Loans | | | | | Dollars of Loans | | | | |
|------------|-----------------|------|---------|------|-------|------------------|-------|---------|-------|-----------|
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Commercial | 17 | 85 | 3 | 15 | 20 | 1,184,701 | 97.88 | 25,706 | 2.12 | 1,210,407 |
| Consumer | 16 | 80 | 4 | 20 | 20 | 41,586 | 67.05 | 20,434 | 32.95 | 62,020 |
| Totals | 33 | 82.5 | 7 | 17.5 | 40 | 1,226,287 | 96.37 | 46,140 | 3.63 | 1,272,427 |

Source: Loan Sample

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

BNB's overall performance in lending to borrowers of different incomes and businesses of different sizes meets the standards for satisfactory performance.

[Consumer Loans]

The distribution of consumer loans reflects a satisfactory penetration among borrowers of different income levels. The level of consumer loans originated to low income (LMI) borrowers is in line with area demographics. Lending to moderate-income borrowers is above area demographics. The combined number of 55% is indicative of the bank's performance regarding meeting the credit needs for consumer loans within the AA.

The following table details the bank’s performance as compared to the percentage of households in each census tract income level.

| Table 2B - Borrower Distribution of Consumer Loans in McCulloch County AA | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer Loans | 32.30 | 30.00 | 15.85 | 25.00 | 19.65 | 20.00 | 32.21 | 25.00 |

Source: Loan sample; U.S. Census data.

[Commercial Loans]

The distribution of loans to businesses meets the standards for satisfactory performance. Based on our sample, a majority of the number and dollar volume of loans were made to businesses with revenues below \$1MM. Demographic data showed that about 75% of businesses in the AA had revenues below \$1MM, with approximately 22% of business revenues unknown or unavailable. The bank compares favorably with 80% of the sampled loans originated to small businesses. This slightly exceeds the known demographic data, which indicates good penetration among small businesses.

The following table details the bank’s performance as compared to the percentage of businesses below the \$1MM threshold:

| Table 2A - Borrower Distribution of Loans to Businesses in McCulloch County AA | | | | |
|---|--------------|--------------|---------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/Unknown | Total |
| % of AA Businesses | 75.04% | 3.51% | 21.46% | 100% |
| % of Bank Loans in AA by # | 80% | 20% | 0% | 100% |
| % of Bank Loans in AA by \$ | 70% | 30% | 0% | 100% |

Geographic Distribution of Loans

The geographic distribution of loans in BNB’s AA exceeds the standard for satisfactory performance, given the LMI demographic criteria. The loan sample included 20 business loans and 20 consumer loans. Of the 20 business loans, 95% of the loans tested were originated in a moderate-income census tract. This compares very favorable for the bank as only 77% of businesses in the AA are located in a moderate census tract. Similarly, 95% of consumer loans were originated in a moderate census tract compared to only 66% of the AA’s households were located in the moderate census tract. The bank’s performance in this area is outstanding. There are no low-income census tracts in the assessment area for comparison. See the following tables for more detail.

| Table 3A - Geographic Distribution of Loans to Businesses in McCulloch County AA | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans |
| Businesses | 0.00 | 0.00 | 77.00 | 95.00 | 13.04 | 5.00 | 9.96 | 0.00 |

Source: Loan sample; Dunn and Bradstreet data

| Table 3B - Geographic Distribution of Consumer Loans in McCulloch County AA | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer Loans | 0.00 | 0.00 | 66.06 | 95.00 | 16.70 | 5.00 | 17.24 | 0.00 |

Source: Loan sample; U.S. Census data.

Responses to Complaints

BNB has received no complaints in response to their CRA performance.

Fair Lending or Other Illegal Credit Practices Review

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