



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 04, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Bank of Navasota, N. A.
Charter Number 17768**

**109 West Washington Avenue
Navasota, TX 77868**

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

TABLE OF CONTENTS

<u>INSTITUTION'S CRA RATING</u>	i
<u>DESCRIPTION OF INSTITUTION</u>	i
<u>DESCRIPTION OF ASSESSMENT AREA</u>	ii
<u>CONCLUSIONS ABOUT PERFORMANCE CRITERIA</u>	iii-vi

INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The Bank of Navasota, N. A has a satisfactory record of meeting credit needs within the community. The last Community Reinvestment Act (CRA) examination was dated May 5, 1997. This rating is supported by the following:

- The loan-to-deposit ratio meets standards for satisfactory performance and the loan portfolio has increased steadily over the past three years.
- A majority of loans have been originated within the assessment area.
- The distribution of loans to borrowers of different incomes reveals a good penetration of consumer loans to low- and moderate-income individuals. Residential real estate loans indicate an under representation of loans to low- and moderate-income individuals.
- A reasonable volume of commercial loans has been made to small businesses. Commercial loans represent the third largest portion of lending activity, preceded by first consumer loans, and secondly home purchase loans.
- The bank's assessment area does not include any low- and moderate-income census tracts, therefore further analysis of geographic distribution would not be meaningful.

DESCRIPTION OF INSTITUTION

The Bank of Navasota, N. A. is a well-established bank in the Navasota, Texas. It has been in the area since 1983. The bank is an independently owned institution having one office with a drive up facility. The bank does not operate an automated teller machine (ATM). Total assets were \$59 million as of June 30, 2001. The bank's main loan product lines are focused on small consumer loans, residential real estate loans, and commercial loans. Consumer lending represents 34% of the loan portfolio. Residential real estate loans compose 27% and commercial lending represents 18% of the portfolio.

The Bank of Navasota, N. A. capitalizes on the limited lending opportunities, by offering consumer loans with smaller minimum standards than other banks in the area. The lending opportunities are limited due to the small population of the area and the competition of four (4) banks, and two (2) other personal credit institutions located in this small community. The community contacts made for the bank did indicate that there are some opportunities available to area banks for small business lending and residential real estate lending.

Loan Category	\$ (000)	%
Commercial Real Estate Loans	2,160	9%
Commercial Loans	4,084	18%
Residential Real Estate Loans	6,181	27%
Consumer Loans	7,826	34%
Total	20,251	88%

DESCRIPTION OF ASSESSMENT AREA

The Bank of Navasota, N. A.'s assessment area (AA) consists of five continuous geographies: four Block Numbering Areas (BNAs) and one census tract (CT). The BNAs include all three BNAs from Grimes County and BNA 1706 from Washington County. None of the BNAs are located in a Metropolitan Statistical Area. CT 20 is in Brazos County, which is part of the Bryan-College Station MSA (1260). This AA meets the legal requirements of the Community Reinvestment Act.

The BNAs located in Grimes and Washington Counties have a population of 22,360. All four of the areas are classified as Middle-Income areas. The 1990 U.S. Census statewide median family income (MFI) for nonmetropolitan statistical areas (Non-MSAs) is \$24,585. The HUD-updated 2001 figure is \$35,800. CT 20 located in Brazos County has a population of 12,423. This tract is classified as an upper-income tract. The 1990 U. S. Census MFI for this tract is \$31,056, and the HUD-updated 2001 MFI is \$44,900.

The bank's assessment area has a stable economy. The area's economy relies heavily on the industrial park located in the area. The major employers in the area are: Body Bilt Seating, B & R Industries, Dynalloy, Grant Prideco Inc, Interstate Southwest Forge Co., Schultz Homes Corporation, Tenaska, Texas Dept. of Corrections (2 state prisons), Texas Municipal Power Agency, Texas Pipe Distributors, Trinity Head Division, and Tuboscope Vetco. Industry accounts for 3,036 jobs in the area. The area also has a strong railroad presence by BNSF Railroad and Union Pacific Railroad.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	8,581
Number of Households	12,107
<i>Geographies</i>	
Number of Census Tracts/BNA	5
% Low-Income Census Tracts/BNA	0
% Moderate-Income Census Tracts/BNA	0
% Middle-Income Census Tracts/BNA	80
% Upper-Income Census Tracts/BNA	20
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	32,727
1999 HUD-Adjusted MFI	35,600
2000 HUD-Adjusted MFI	36,480
<i>Economic Indicators</i>	
Unemployment Rate	2.43%
1990 Median Housing Value	54,650
% of Households Below Poverty Level	23.12%

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The Loan-to-Deposit ratio is reasonable, given the bank's size, financial conditions, and assessment area credit needs, and when compared to similarly situated banks. The Bank of Navasota's average loan-to-deposit ratio for the last 17 quarters - June of 1997 to June of 2001 - since the previous CRA evaluation is 35% with the trend up in the last six (6) quarters. The June of 2001 loan-to-deposit ratio is the highest ever for the bank at 43%.

Performance was compared with other similarly situated institutions operating in the close proximity of the bank's assessment area. Three similar banks were selected for comparison based on asset size and location. The period of comparison is the most recent 14 quarters as opposed to the 17 quarter history since the bank's last CRA evaluation because information for 1997 on the other institutions was no longer readily available. See the table below.

Institution	Assets (as of 06/30/01)	Average LTD Ratio
First National Bank (FNB) of Anderson	67,897	63.60
First State Bank - Bedia	44,736	45.29
Burton State Bank	38,541	25.64
<i>The Bank of Navasota, N.A</i>	59,295	35.49

As shown above, the bank's loan-to-deposit ratio was lower than two institutions and higher than one reviewed. The most similarly situated banks in terms of size, location, market served, and portfolio mix are the banks in Anderson and Bedia. The bank in Burton is not considered similarly situated because it is significantly smaller in terms of total assets, the market is different, and its loan portfolio emphasizes different products.

The Bank of Navasota, N. A. maintains 22% deposit market share and FNB of Anderson maintains 26% deposit market share in the area. The Bank of Navasota, N. A has the highest deposit market share in the City of Navasota, ahead of a branch of Guaranty Federal Bank and a branch of Wells Fargo.

See Table below for comparison of each bank's portfolio mix.

Consumer Loans	Residential Loans	Commercial Loans	Agriculture Loans	
Navasota	34%	27%	18%	4%
FNB Anderson	25%	42%	20%	12%
Burton St Bank	34%	57%	3%	8%
First State Bank	24%	36%	17%	24%

Lending in Assessment Area

A substantial majority of loans were made within the defined assessment area. A review of a sample of loans disclosed that 52 of 60 loans or 87% of the number and 83% of the dollar amount of loans were made in the bank's assessment area. The sample included 20 loans from each of the consumer, residential real estate, and commercial portfolios.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer	15	75%	183,488	75%	5	25%	61,386	25%
Real Estate	20	100%	985,124	100%	0	0%	0	0%
Commercial	17	85%	719,506	69%	3	15%	317,510	31%
Total Reviewed	52	87%	1,888,118	83%	8	13%	378,896	17%

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

Overall, performance for lending to borrowers of different incomes and businesses of different sizes is reasonable, primarily because of the excellent penetration in consumer lending and reasonable penetration in small business lending. Residential real estate lending to low- and moderate-income families is poor. Consumer lending represents the bank's primary lending focus and accounts for the largest number and amount of loans originated and is weighted more heavily in analyzing the bank's performance of this criterion. The secondary lending areas are residential real estate and commercial. Management needs to improve its penetration of loans to low-and moderate-income borrowers for residential real estate loans.

Lending to Individuals

Consumer lending to persons of different incomes is excellent. (55% to low- and moderate-income applicants overall based on sampling.)

The bank has poor penetration in loans to low- and moderate-income borrowers for residential real estate loans. Community contacts to a government agency involved in residential real estate lending to low- to moderate-income families, stated that there are additional opportunities for lenders in the area to be more involved in lending to low- to moderate-income families in residential lending.

Small Business lending is reasonable. (93%)

To assess the distribution of loans to borrowers of different incomes, a random sampling of loans made to individuals in the AA since the last CRA exam was reviewed. The table below displays the distribution for the 20 consumer loans and 20 residential real estate loans that have been originated compared with the number of assessment area households in each income level.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households ²	25%		12%		13.2%		49.8%	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
1998	50%	66%	0	0	0	0	50%	34%
1999	0	0	0	0	50%	73%	50%	27%
2000	38%	41%	38%	43%	0	0	24%	16%
2001	25%	10%	25%	13%	13%	6%	37%	71%
Total	30%	31%	25%	20%	10%	10%	35%	39%

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families ¹	20.1%		19.8%		11.9%		48.2%	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
1997	0	0	0	0	0	0	100%	100%
1998	0	0	0	0	100%	100%	0	0
1999	0	0	0	0	0	0	100%	100%
2000	11%	6%	0	0	22%	18%	67%	76%
2001	0	0	0	0	100%	100%	0	0
Total	5%	3%	0	0	40%	28%	55%	69%

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	93%	7%
% of Bank Loans in AA #	90%	10%
% of Bank Loans in AA \$	73%	27%

Geographic Distribution of Loans

The bank does not have any low- and moderate-income tracts in their assessment area, therefore an analysis of geographic distribution would not be meaningful.

Responses to Complaints

No complaints relating to the bank's CRA performance have been made since the last CRA examination.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS

An analysis of three years of public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA examination.