



## **PUBLIC DISCLOSURE**

March 10, 2015

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

The Brenham National Bank  
Charter Number 13678

2211 South Day Street  
Brenham, TX 77833

Office of the Comptroller of the Currency

1301 McKinney Street  
Suite 1410  
Houston, TX 77010-3031

**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 COMMUNITY REINVESTMENT ACT RATING:**  
**This institution is rated "Satisfactory".**

The Brenham National Bank (Brenham NB) has a "**Satisfactory**" record of meeting community credit needs in its assessment areas (AA). The following factors support this rating:

- Brenham NB originated a substantial majority of its loans in its AAs by both number and dollar amount.
- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and credit needs of the AAs, and consistent with similarly situated banks in the surrounding area.
- Brenham NB has excellent penetration of commercial loans to businesses with revenues of \$1 million or less in the Washington AA.
- Brenham NB has excellent penetration of consumer loans to moderate-income borrowers for 2013 in the Brazos AA.

## **SCOPE OF EVALUATION**

Brenham NB was evaluated under the Small Bank evaluation procedures, which included a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities. We reviewed loans originated or renewed from January 1, 2013 through December 31, 2014, as reflective of the evaluation period. We reviewed all CRA related activities since the last examination.

As of December 31, 2014, the loan portfolio represents 43 percent of average assets. Commercial loans, excluding construction and land development, comprise 36 percent of the loan portfolio by dollar amount and 22 percent by number of loans. Consumer loans comprise three percent of the portfolio by dollar volume, and 33 percent by number of loans. Residential real estate lending comprises 17 percent of the portfolio by dollar volume and 13 percent by number. For our analysis, we reviewed 136 loans, which included 100 percent of commercial and consumer originations in the Brazos AA in 2013 and 2014.

As a Small Bank for CRA purposes, the bank is not required to collect census tract (CT) data or revenue information on business or consumer loans. The bank is required to collect data relevant to the Home Mortgage Disclosure Act; however, there were not enough residential real estate loan originations in the lending test period to allow for a meaningful analysis.

## **DESCRIPTION OF INSTITUTION**

Brenham NB is an independently owned financial institution headquartered in Brenham, Washington County, Texas. The bank was chartered on April 25, 1933. The bank also operates branches in Chappell Hill, Texas and College Station, Texas. Brenham Bancshares, Inc., a one-bank holding company, owns Brenham NB.

The bank serves customers with two full service branch locations in Brenham and College Station, and one limited service branch located in Chappell Hill. Banking hours are reasonable and uniform across all branches. During the week, lobby hours are 9 a.m. to 5 p.m. Monday-Friday, with extended drive-thru hours from 7:30 a.m. to 5:30 p.m. On Saturday, drive-thru services are available from 7:30 a.m. to 12 p.m. at the Chappell Hill branch. The bank provides customers with four deposit taking automated teller machines (ATM). Three remote ATMs are located in Washington County, Texas, and one each at the Brenham and College Station branches, respectively. The bank provides 24-hour telephone banking as well as online banking services.

Brenham NB offers a wide array of deposit and loan products and services to help meet the credit needs in its AAs. At December 31, 2014, the bank had \$287 million in assets and a tier 1 leverage capital ratio of 9.37 percent. There are no legal or financial factors that hinder the bank's ability to help meet the credit needs of the AA.

The bank was rated Satisfactory at its last CRA evaluation dated January 30, 2012.

*Please refer to the bank's Public File for additional information.*

## **DESCRIPTION OF ASSESSMENT AREA**

Brenham NB has two AAs in Texas. The Washington AA is comprised of six CTs all located in Washington County, Texas, a Non-Metropolitan Statistical Area (MSA) in Brenham, Texas, approximately 75 miles northwest of Houston, Texas. The Brazos AA consists of all 42 CTs in Brazos County, Texas, within the Bryan-College Station MSA. Both AAs meet the requirements of the regulation and do not arbitrarily exclude low- or moderate-income CTs. From 2013 to 2014, there were income designation changes for two CTs in the Brazos AA. As a result, an analysis was performed for each year separately. The Washington AA did not have any CT changes for this time period, so the analysis for this AA was combined.

## **Washington AA**

The Washington AA consists of the six CTs that comprise Washington County, Texas. Of the CTs, two are middle income, and four are upper income geographies. According to the 2010 U.S. Census, the total AA population is 33.7 thousand. There are 8.9 thousand owner occupied residences, and 3.9 thousand rental residences. The weighted average median of housing is \$135.5 thousand, and the weighted average of median family income is \$58.4 thousand. Fifteen percent of households are below the poverty level, and 33 percent are receiving social security benefits. Per the U.S. Bureau of Labor Statistics, the 2013 unemployment rate for Washington County is 3.2 percent. The Federal Deposit Insurance Corporation (FDIC) reports there are 10 banks in the AA, and Brenham NB has the highest deposit market share at 25 percent.

Washington County is in the Blackland Prairies region of southeast central Texas where, at the Convention of 1836, Texans signed the Declaration of Independence from Mexico thereby making it the “Birthplace of Texas.” Brenham is the largest city, as well as the county seat. According to the 2010 U.S. Census, Brenham has a population of 15.7 thousand, with a 2013 estimate of 16.1 thousand.

Brenham is well known for being the heart of the bluebonnet region. In 2013, the *Texas Country Reporter*, an educational television program, named the Brenham/Chappell Hill area the second best place to view the state flower. Blue Bell Creameries, based in Brenham, was founded in 1907, and ranks among the top three best-selling ice creams in the country. The top five major employers include Brenham State Supported Living Center, Blue Bell Creameries, Brenham Independent School District (ISD), Blinn College, and MIC Industries. As a whole, manufacturing is the largest industry in Brenham, employing 2.9 thousand persons, followed by retail trade, healthcare and social assistance, educational services, and accommodation and food services. Brenham is also the home campus to Blinn College. In the Fall 2014, Blinn enrolled 19.3 thousand students, the highest in the college’s 131 year history.

During the evaluation, we contacted a local community organization. This contact indicated credit needs in the AA were related to small business lending, specifically working capital financing. The contact spoke favorably of this bank and also mentioned Citizens State Bank as well as Bank of Brenham, N.A. as active participants in meeting the credit needs of the community.

## **Brazos AA**

The Brazos AA is comprised of the 42 CTs in Brazos County within the College Station-Bryan MSA. In 2013, there were eight low-income, nine moderate-income, 11 middle-income, and 14 upper-income CTs. In 2014, two low-income tracts were reclassified as “unknown” as they contained a portion of Texas A&M University. The remaining CTs are unchanged.

According to the 2010 U.S. Census, the AA has a total population of 194.9 thousand persons. There are 31.2 thousand owner occupied residences, and 34.9 thousand rental residences. The weighted average housing value is \$136.6 thousand, and the weighted average of median family income is \$61.1 thousand. Twenty-nine percent of households are below the poverty level, and 16 percent are receiving social security benefits. Per the U.S. Bureau of Labor Statistics, the 2013 unemployment rate for Washington County is 2.9 percent. The FDIC reports there are 19 banks in the AA, with Brenham NB retaining 0.6 percent of the deposit market share.

Brazos County, named for the nearby Brazos River, is located in southeast central Texas. The county seat, Bryan, was established in 1859, and began as a small-town stop alongside Texas' expanding railway system. In addition to the railway, Bryan was an area rich with farming and agriculture opportunities, which led to the establishment of the Agricultural and Mechanical College of Texas in 1876. The college was established four miles outside of Bryan in a community formed to serve the needs of professors and other local educators. Eventually this community became College Station, originally a railway stop like Bryan, and the college was renamed Texas A&M University.

Today Texas A&M, including the Texas A&M University System, is the largest employer in the AA, employing a combined 20 thousand individuals. Other industries in the area likewise revolve around education, healthcare, and agriculture. In addition to the aforementioned, major employers include Bryan ISD, Sanderson Farms, Inc., St. Joseph Regional Health Center, Reynolds and Reynolds, and College Station ISD.

During the evaluation, we contacted a local community organization. This contact indicated credit needs in this AA revolved around providing lending products to non-traditional borrowers who do not meet the standard creditworthiness criteria. Additional opportunities involve down payment assistance programs, as well as educational lending, first time homebuyer assistance and financial literacy programs. The bank continues to lend to individuals, offering loans as low as \$1 thousand.

## **Conclusions with Respect to Performance Tests**

### **Loan-to-Deposit Ratio**

The LTD ratio is reasonable given the bank's size, financial condition, and AA credit needs. As of December 31, 2014, Brenham NB's quarterly LTD ratio since the prior evaluation averaged 44.36 percent. A peer group of three banks with total assets ranging from \$125 million to \$286 million headquartered in the AAs or surrounding counties, was used as comparator banks. For the same evaluation period, these banks had average LTD ratios ranging from a low of 23.05 percent to a high of 63.61 percent, with an average of 43.27 percent. Brenham NB's LTD ratio compares favorably and ranks second among all four banks.

## Lending in Assessment Area

A substantial majority of loan originations, by both number and dollar amount, are inside the bank's AAs. Specifically, 84 percent of the number and 80 percent of the dollar volume of loans originated or purchased during the evaluation period were in Brenham NB's AAs. Our analysis included 136 loans originated in 2013 and 2014. The following table details Brenham NB's lending in the AA by product type.

Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	68	86.08	11	13.92	79	804	84.81	144	15.19	948
Commercial	46	80.70	11	19.30	57	8,166	9.70	2,080	20.30	10,246
Totals	114	<b>83.82</b>	22	16.18	136	8,970	<b>80.13</b>	2,224	19.87	11,194

Source: Loan data collected by Brenham NB

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

Overall, the distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes given the bank's product offerings and local economic conditions.

### Commercial Loans

#### *Washington AA*

The distribution of loans to businesses reflects excellent penetration among businesses of different sizes in the Washington AA. Of commercial loans originated during the review period, 81 percent were made to small businesses. Small businesses are businesses with gross annual revenues of \$1 million or less. This is excellent when compared to demographic data that shows 74 percent of businesses in the area are considered small businesses. The following table shows the distribution of commercial loans among different sized businesses in the AA.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	74.23	3.95	21.82	100.00
% of Bank Loans in AA by #	<b>81.48</b>	18.52	0.00	100.00
% of Bank Loans in AA by \$	75.15	24.85	0.00	100.00

Source: Dun & Bradstreet Data; Loan Sample

*Brazos AA*

There were not enough commercial loan originations in the Brazos AA to allow for a meaningful analysis. Despite this, we reviewed 100 percent of the bank’s commercial originations for the evaluation period. As previously mentioned, two CTs in this AA changed income designation from 2013 to 2014, which resulted in a separate analysis for each year. For 2013, 10 loans, or 82 percent of commercial originations by number were to small businesses, which would be considered excellent as only 72 percent of businesses reported revenues of \$1 million or less. In 2014, all nine commercial loan originations in the AA were to businesses with revenues of \$1 million or less, which also would be considered excellent.

**Consumer Loans**

*Washington AA*

The distribution of consumer loans reflects reasonable penetration among borrowers of different income levels in the Washington AA. The bank’s level of lending was reasonable to both low-income borrowers and moderate-income borrowers. The following table shows the distribution of consumer loan products among borrowers of different income levels as compared to the percent of households in each income category.

<b>Table 2A - Borrower Distribution of Consumer Loans in Washington AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	23.05	<b>18.52</b>	16.63	<b>14.81</b>	13.53	22.22	46.79	44.44

*Source: 2010 U.S. Census Data; Loan Sample*

*Brazos AA*

The distribution of consumer loans to borrowers reflects reasonable penetration among borrowers of different income levels in the Brazos AA. In 2013, the distribution of loans to low-income borrowers was reasonable, while the distribution of loans to moderate-income borrowers reflects excellent penetration. In 2014, the level of lending to low-income borrowers was below the characteristics of the AA for lending to low-income households. The level of lending to moderate-income borrowers was below but near to the characteristics of the AA, reflecting reasonable penetration. The following tables show the distribution of consumer loan products among borrowers of different income

levels as compared to the percent of families in each income category for each year analyzed.

<b>Table 2B - Borrower Distribution of Consumer Loans in Brazos AA 2013</b>								
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	30.47	<b>21.74</b>	13.07	<b>21.74</b>	13.14	34.78	43.33	21.74

Source: 2010 U.S. Census Data; Loan Sample

<b>Table 2C - Borrower Distribution of Consumer Loans in Brazos AA 2014</b>								
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	30.47	<b>11.11</b>	13.07	<b>11.11</b>	13.14	11.11	43.33	66.67

Source: 2010 U.S. Census Data; Loan Sample

### **Geographic Distribution of Loans**

The Washington AA does not contain any low- or moderate-income CTs. The overall geographic distribution of loans in the Brazos AA is reasonable. From 2013 to 2014, two low-income CTs were reclassified as “unknown.” As mentioned above, due to these CT changes we analyzed each year in the Brazos AA individually.

### **Commercial Loans**

#### *Brazos AA*

As previously mentioned, there were not enough loans originated in the Brazos AA during the evaluation period to allow for a meaningful analysis. However, since commercial loans are the largest product by dollar amount, we reviewed all originations for this time period. In 2013, the bank originated ten commercial loans in the AA, one loan in a low-income CT, and three in moderate-income CTs, representing 10 and 30 percent of originations, respectively. The percentage of businesses in low- and moderate-income tracts is 10.9 percent and 17.5 percent, respectively. Of the nine originations in 2014, the bank did not originate any loans in low-income CTs, compared to 9.47 percent in the AA. However, four loans, or 44 percent, were originated in

moderate-income geographies compared to 18 percent of the businesses located in the AA.

**Consumer Loans**

*Brazos AA*

Loan originations to consumers in low- and moderate-income geographies in the Brazos AA were below the characteristics of this AA. In 2013, originations to low-income households were below the geographic comparator indicating poor dispersion thereof, but originations in moderate-income CTs were near to the geographic comparator, reflecting reasonable dispersion. In 2014, originations were below the geographic comparator for both low- and moderate-income geographies. The following table details the bank’s performance as compared to the percentage of households in each income level.

<b>Table 3C - Geographic Distribution of Consumer Loans in Brazos AA 2013</b>								
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	15.66	<b>4.35</b>	22.63	<b>21.74</b>	30.20	30.43	31.46	43.48

Source: 2010 U.S. Census Data; Loan Sample  
 Note: 0.05% of households did not report income information.

<b>Table 3B - Geographic Distribution of Consumer Loans in Brazos AA 2014</b>								
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	15.66	<b>0.00</b>	22.63	<b>11.11</b>	30.20	38.89	31.46	50.00

Source: Loan Sample; 2010 U.S. Census Data  
 Note: 0.05% of households did not report income information.

### **Responses to Complaints**

The bank did not receive any CRA related complaints during the evaluation period.

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

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 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 assessment area 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.