



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 30, 2012

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

Houston (8515) Field Office
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 has a satisfactory record of meeting credit needs within the community. The bank was rated "Satisfactory" at the last Community Reinvestment Act (CRA) examination dated August 22, 2006.

The following supports this rating:

- The loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and assessment area credit needs.
- The bank has a satisfactory record of lending within its assessment area. A majority of loans are originated in the institution's assessment area.
- The distribution of borrowers reflects reasonable penetration among low-income borrowers in Brazos County and moderate-income borrowers in Washington County, and businesses of different sizes.
- The geographic distribution of residential-related and business loans reflects excellent dispersion in moderate-income census tracts.
- The bank has not received any consumer complaints regarding CRA performance.

SCOPE OF EXAMINATION

We completed a full-scope review of the bank's CRA activities in the assessment areas (AA) of Washington County, Texas and Brazos County, Texas. Our review was focused on borrower and geographic distribution of residential real estate loans and loans to businesses for the period January 1, 2007 through December 31, 2011.

The review included residential real estate loans where management collected reliable gross income and census tract location data for all loans as required by the Home Mortgage Disclosure Act (HMDA) for the years 2007 through 2011. For loans to businesses, we selected a statistical sample of 60 commercial and commercial real estate loans originating in 2010 and 2011.

DESCRIPTION OF INSTITUTION

The Brenham National Bank (BNB) is headquartered in Brenham, Texas and had total assets of \$273 million as of December 31, 2011. The bank was established in 1933 and operates the main office located at 2211 South Day Street in Brenham, Texas, approximately two miles south of the downtown area. The bank also operates branches in Chappell Hill, Texas and College Station, Texas. BNB is owned by Brenham Bancshares, Inc., a one bank holding company. BNB has one subsidiary, BNB Asset Management Corporation, which was formed to hold and manage foreclosed real estate.

The bank's lobby is open from 9AM to 5PM on weekdays and drive-through lanes are open from 7:30AM to 5:30PM on weekdays and 7:30AM to noon on Saturdays. Five Automated Teller Machines (ATMs) are available. One ATM is located at the main bank, three others are located throughout Brenham and one ATM is in College Station.

The bank offers a variety of personal and commercial products and services. The primary lending focus is commercial lending at 43 percent and residential real estate at 16 percent of the loan portfolio. Other loan products include construction and development at 27 percent and consumer lending at 4 percent.

No legal or financial circumstances impede BNB's ability to help meet the credit needs in its assessment area.

DESCRIPTION OF ASSESSMENT AREA(S)

The bank has two assessment areas (AA) as described below. The Washington County AA is not located in a Metropolitan Statistical Area (MSA). The Brazos County AA is part of the College Station-Bryan MSA. The assessment areas meet the requirements of the regulation and do not arbitrarily exclude low- and moderate-income geographies.

Description of Washington County AA

The Washington County AA is comprised of six census tracts (CTs) which includes two middle-income and four upper-income geographies. The county is known as the "the birthplace of Texas" and named for the first President of the United States (U.S.). The county seat is Brenham.

According to the 2000 U.S. Census, the population of Washington County is 30,373 consisting of 11,343 households and 8,014 families. The median weighted average family income was \$44,691 and the median housing value was \$86,896. The weighted average monthly gross rent is \$467 dollars. The number of occupied units total 8,327 and rental occupied units total 2,995. Approximately 63 percent of housing units are owner-occupied. The number of households with income below the poverty level is 15 percent and 14 percent of the population is retired. According to the Bureau of Labor Statistics, the unemployment rate is 5.4 percent.

Brenham is the largest city in the AA with a population 16,147. Brenham is known as the heart of the bluebonnet region in Central Texas and the headquarters for Blue Bell Creameries (Blue Bell), the third largest ice creamery in the U.S. Major employers include Blinn College, Brenham State School, Blue Bell, Brenham Independent School District, Walmart Supercenter, Germania Farm Mutual Insurance, Trinity Medical Center, Sealy Mattress Company, Bamonth A.L.S. and Brenham Wholesale Grocery. Brenham is also the home of the main campus of Blinn College. Blinn College has an enrollment of 2,377 students.

The financial environment is competitive. Financial service providers include other community banks and large national banks. Other financial service providers in the area include Bank of Brenham, National Association (N.A.), Citizens Bank, J.P. Morgan Chase, N.A., Wells Fargo, N.A., and Capital One, N.A. Despite heavy competition, according to the June 20, 2011 Federal Deposit Insurance Corporation (FDIC) Market Share Report for deposits, the bank's market share is approximately 25 percent in the AA.

Description of Brazos County

The Brazos County assessment area is in the College Station-Bryan MSA and is comprised of thirty census tracts which includes one low-income, ten moderate-income, eleven middle-income and seven upper-income geographies. Brazos County is located between the Navasota and Brazos rivers in southeast central Texas. The County is named from the nearby Brazos River. Bryan is the county seat and College Station is a major community in the county.

According to the 2000 U.S. Census, the population of Brazos County is 152,415 consisting of 55,188 households and 30,723 families. The median weighted average family income was \$47,707 and the median housing value was \$89,458. The weighted average monthly gross rent is \$481 dollars. The number of occupied units total 25,147 and rental occupied units total 30,055. Approximately 43 percent of housing units are owner occupied. The number of households with income below the poverty level total approximately 28 percent and 14 percent receives social security benefits. According to the Bureau of Labor Statistics, the unemployment rate is 5.6 percent and 14 percent of the population is retired.

College Station is the home of the main campus of Texas A&M University (Texas A&M), the flagship institution of The Texas A&M University System. Students make up approximately 6 percent of the 67,890 population of College Station. Major employers include Texas A&M, Bryan Independent School District, St. Joseph Regional Health Center, Sanderson Farms, College Station Independent School District, Reynolds & Reynolds, City of Bryan, City of College Station, Walmart Stores, New Alenco Windows and HEB Grocery.

The financial environment is competitive. Major competitors include Wells Fargo Bank N.A., Citibank, N.A., Compass Bank, Prosperity Bank, and Bank and Trust Bryan College Station. According to the June 20, 2011 FDIC Market Share Report for deposits, the bank's market share is approximately 0.65 percent in the AA.

An OCC Community Affairs Officer completed two community contacts for this examination. One contact was with a local Small Business Development Center. The purpose of the center is to help companies relocate to Brenham and Washington County, and to help businesses that are currently located there to grow. The contact identified an opportunity for local financial institutions to become involved with a Small Business Development Center (SBDC) affiliated with Blinn College. Financial institutions could refer businesses to the SBDC and also engage in some type of gap

financing for non-profit organizations. The other contact was with the local housing authority providing affordable housing. The contact believes the credit needs of the community are being met and there are definite opportunities for financial institutions to participate in community development in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio is more than reasonable. Since the last CRA evaluation, BNB’s loan-to-deposit ratio averaged 69 percent. Similarly situated banks had an average ratio of 57 percent over the same period.

Lending in Assessment Area

The bank meets the standards for satisfactory performance. A majority of BNB’s loans by number and dollar amount were originated within the assessment area.

We selected a sample of loans from BNB’s primary lending products: 117 commercial and residential real estate-related loans. The sample reflects approximately 79 percent of the bank’s loans by number and 76 percent by dollar amount were originated within the AA. Demand for commercial real estate lending within the AA is satiated by the relatively large number of financial institutions in the county. To help diversify risk in the local real estate market, the bank also purchases loans outside of its AA.

Lending in Brazos County AA and Washington County AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	46	80.70	11	19.3	57	7,928	78.41	2,009	21.59	9,937
Business	46	76.67	14	23.33	60	5,694	71.02	2,324	28.98	8,018
Totals	92	78.63	25	21.37	117	13,622	75.90	4,333	24.1	17,955

Source: Data reported under HMDA; Loan sample.

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

Washington County

The distribution of loans within Washington County reflects reasonable penetration among borrowers of different income levels. Some loans were originated to low-income families. However, the level of penetration to low-income individuals within the AA is poor. This performance is attributed to the type of real estate products offered by the bank, which generally have more strict underwriting policies. In response to serving low- to moderate-income families, management recently signed an agreement to partner with another bank to offer lending products in these demographics.

The distribution of loans to moderate-income borrowers reflects reasonable penetration. Demographic information indicates 15 percent of the AA households are moderate-income. The bank originated approximately 9 percent of its residential real estate loans to moderate-income borrowers.

Borrower Distribution of Residential Real Estate Loans in Washington Co AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential RE	15.66	1.75	15.17	8.77	18.52	12.28	50.65	77.20

Source: Data reported under HMDA; U.S. Census data.

The distribution of commercial-related loans to small businesses is reasonable.

The percentage and number of loans originated for businesses with annual gross revenues equal to or less than \$1 million is reasonable in the assessment area. In Washington County, approximately 72 percent of the businesses have annual revenues of less than \$1 million. The distribution of commercial-related loans reflects 36 percent by number and 28 percent by dollar amount were made to businesses with annual revenues less than \$1 million. The majority of bank loans were originated in Washington County.

Borrower Distribution of Loans to Businesses Washington Co AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	72.12	2.26	25.62	100%
% of Bank Loans in AA by #	36.11	36.11	27.78	100%
% of Bank Loans in AA by \$	28.15	67.53	4.32	100%

Source: Loan sample; Dunn and Bradstreet data

Brazos County

The distribution of loans within Brazos County reflects reasonable penetration among borrowers of different income levels. While the sample reflects no loans made to borrowers of moderate-income, the distribution of loans to low-income borrowers reflects reasonable penetration. Demographic information indicates 23 percent of the AA households are low-income. The bank originated 17 percent of its residential real estate loans to low-income borrowers.

Borrower Distribution of Residential Real Estate Loans in Brazos Co AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential RE	23.04	16.67	15.66	0	17.13	0	44.17	83.33

Source: Data reported under HMDA; U.S. Census data.

The distribution of commercial-related loans to small businesses is reasonable.

The percentage and number of loans originated to businesses with annual gross revenues equal to or less than \$1 million is reasonable in the assessment area.

In the Brazos county assessment area, approximately 69 percent of the businesses have annual revenues of less than \$1 million. The distribution of commercial-related loans in Brazos County reflects 20 percent by number and 35 percent by dollar amount were made to businesses with annual revenues less than \$1 million; the following table lists the characteristics of the AA. This is reflective of the strong market competition in the area. In addition, the bank has only been in the AA for five years and market presence is low in comparison to other financial institutions in the area.

Borrower Distribution of Loans to Businesses in Brazos Co AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	68.63	2.33	29.04	100%
% of Bank Loans in AA by #	20.00	70.00	10.00	100%
% of AA Businesses by \$	34.76	62.56	2.68	100%

Source: Loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans

A geographical analysis of lending activity within the Washington County assessment area was not performed. There are no low- or moderate-income geographies located in the county, and therefore, an analysis would not be meaningful.

The geographic distribution of residential-related loans originated in Brazos county shows excellent dispersion. The number of loans originated to borrowers located in moderate-income census tracts exceeds the percentage of moderate-income AA households for all home mortgage products. It is reflected that only .08% of the owner occupied housing units in the AA are located in the low-income census tracts.

Geographic Distribution of Residential Real Estate Loans in Brazos Co AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential RE	0.08	0.00	21.69	25.00	37.81	56.25	40.41	18.75

Source: Data reported under HMDA; U.S. Census data.

The geographic distribution of loans to businesses originated in Brazos county shows excellent dispersion. The percentage of loans originated in moderate-income census tracts exceeds the percentage of businesses in the assessment area. Only 1.2% of businesses are located in low-income census tracts.

Geographic Distribution of Loans to Businesses in Brazos Co 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	1.19	0.00	21.78	30.00	34.11	20	42.54	50

Source: Loan sample; Dunn and Bradstreet data.

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

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