



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

July 26, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Brazos National Bank
Charter Number 17383**

**2300 State Highway 288 B
Richwood, Texas 77531**

**Comptroller of the Currency
Houston
1301 McKinney Street, Suite 3410
Houston, TX 77010-9010**

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.

Brazos National Bank (BNB) is responsive to the credit needs of its community, including low- and moderate-income individuals and businesses in Brazoria County. The following factors support this conclusion:

- Overall lending to borrowers of different incomes and to businesses of different sizes meets the standards for satisfactory performance. Consumer lending, in particular, exceeds the characteristics of the Assessment Area (AA).
- Lending within the AA is significant and exceeds the standards for satisfactory performance.
- The geographic distribution of loans is reasonable.

DESCRIPTION OF INSTITUTION

BNB is a \$13 million full service bank located in Brazoria County that opened for business in 1982. The bank has one office at 2300 Highway 288 B in Richwood, Texas. BNB offers a full range of credit products within its assessment area including consumer loan products, commercial, commercial real estate, and residential real estate products. The primary loan products are consumer loans and commercial loans. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the AA. The bank was rated satisfactory at the prior Community Reinvestment Act examination dated October 7, 1999.

Please refer to BNB's CRA Public File for more information about the institution.

DESCRIPTION OF BRAZORIA COUNTY

Brazoria County has 250 thousand residents and covers 1,422 square miles. Chamber of Commerce information predicts a population increase of 100 thousand in the next 10 to 15 years. Petrochemical industries are the mainstay of the economy, but Port Freeport is also a significant contributor to the economy. Freeport is the second largest container port on the Texas Gulf Coast. Major employers include Dow Chemical Company with approximately 5 thousand employees and BASF Corporation with 850 employees. Other large employers include U. S. Contractors, Wal-Mart, Industrial Specialists, and ConocoPhillips.

The county has 44 miles of beaches, including 27 miles accessible by vehicle. Local beaches include Bryan Beach State Recreation Area, Follet's Island Beach, Quintana Beach Park, San Luis County Park, and several beaches in Surfside. The bank is located in the Brazosport area. It is in the southern part of the county and includes eight cities. In addition to Richwood, Brazosport includes Clute, Freeport, Jones Creek, Lake Jackson, Oyster Creek, Quintana, and Surfside Beach. Of the Brazosport population of 59 thousand, Lake Jackson is the largest city with a population of 26 thousand. Richwood has an estimated population of 3 thousand.

The county has 61 thousand owner-occupied single-family housing units and 21 thousand rental units. The median value of a single-family residence is \$81 thousand. The county has no low-income census tracts, seven moderate-income census tracts, 26 middle-income census tracts, and 12 upper-income census tracts. The unemployment rate was 2.54% in 2004, and 10 % of the population are below the poverty level. The median family income was \$59,400 in 2004.

We reviewed community contacts completed during the evaluation of other area banks and contacted a local small business development center. The contact did not identify any significant credit needs not being met and spoke favorably of the involvement of local banks.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our review focused on the two significant lending areas of consumer and commercial. Consumer loans were the largest in number of loans originated. Of 453 loan originations in 2003, 2004, and 2005, consumer loans were 57% of the originations. Commercial loans were the second largest in originations for the three-year period at 35%. All other loan originations were only 8 %. We chose a statistical sample of 30 consumer loans and 30 commercial loans with 10 loans being reviewed from each of the three years. Consumer loan information was compared to 2000 U. S. Census information. Commercial loan information was compared to current Dunn and Bradstreet information.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable considering the bank's asset size and the intense competition in Brazoria County. Management aggressively pursues lending opportunities. The quarterly average ratio since the prior CRA examination dated October 7, 1999 is 42%, the same as an average of five other banks in Brazoria County for the same period. However, the ratio declined to 31% at March 31, 2005 from a previous high of 55% in 2001. The peer group average was 40% at this date. We found the bank's asset size limits the dollar amount of loans that can be originated affecting this ratio. Also, intense competition from local banks, multiple branches of large multi-state banks, and local credit unions limits the bank's lending opportunities. In addition, the bank experiences significant competition from financing incentives offered by auto manufacturers. Auto loans have been a major loan product in the past but have declined significantly in recent years.

Lending in Assessment Area

BNB originates almost all of its loans in its AA, and lending in the AA exceeds the standards for satisfactory performance. Our sample included a total of 60 loans of which 58 were in the AA. The only loans originated outside the AA in our sample were granted to well-known and longtime customers who have a business in an adjacent county. The details of our loan sample review are in following table:

Table 1 - Lending in Brazoria County										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		#	%	#	%	
Consumer	30	100	0	0	30	247,473	100	0	0	247,473
Commercial	28	93	2	7	30	529,561	95	25,860	5	555,421
Totals	58	97	2	3	60	777,034	97	25,860	3	803,164

Source: sample of loans.

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

Overall, the level of lending to borrowers of different incomes and businesses of different sizes meets the standard for satisfactory performance. In particular, lending to low- and moderate-income borrowers for consumer loans exceeds the characteristics of the assessment area. In addition, the bank originated loans to several borrowers with very low incomes and at least one borrower below the AA poverty level. Further, the bank does not have a minimum loan amount and will grant consumer loans in any amount to credit-worthy borrowers regardless of income. For our sample, the percentage of the number of households in each income category according to 2000 census information was compared to the bank's percentage of lending as shown in the following table:

Table 2A - Borrower Distribution of Consumer Loans in Brazoria County								
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	23	30	17	27	19	23	41	20

Source: loan sample for 2003, 2004, and 2005; U.S. Census data.

Lending to businesses of different sizes is satisfactory considering all factors. The bank's performance is below the characteristic of the AA as shown in the following table:

Table 2B - Borrower Distribution of Loans to Businesses in Brazoria County				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	66	4	30	100%
% of Bank Loans in AA by #	46	36	18	100%
% of Bank Loans in AA by \$	27	66	7	100%

Source: Loan sample; 2003, 2004, and 2005 and Dunn and Bradstreet data for 2004.

An analysis of the sample of loan originations revealed the lending limit based on asset size and capital limits the loan amount and the ability to attract new business customers. All commercial loans originated were less than \$100 thousand in amount. In addition, several of the loans were to longtime customers whose revenues have grown to be in excess of \$1 million. Seven of the

thirty loans sampled or 23 percent were to three longtime customers with revenues in excess of \$1 million. Three loans were originated to one customer, and two loans per customer were originated to the other two of three longtime customers.

Geographic Distribution of Loans

Overall, the geographic distribution of loans meets the standards for satisfactory performance. Brazoria County does not have any low-income census tracts. Therefore, we analyzed lending in moderate-income census tract information as shown in following two tables:

Table 3A - Geographic Distribution of Consumer Loans in Brazoria County								
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	0	13	10	53	53	34	37

Source: loan sample for 2003, 2004, and 2005; U.S. Census data.

Table 3A - Geographic Distribution of Loans to Businesses in Brazoria County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Commercial	0	0	14	11	52	53	34	36

Source: loan sample; Dunn and Bradstreet data for 2004.

Overall, we concluded that the geographic distribution of loans is not significantly below the characteristics of the AA and should not be a major factor in the bank's ratings. Further, the moderate-income tracts are not close to the bank. Two are in the northern part of the county approximately thirty minutes from the bank. The remaining five census tracts are approximately twelve miles from the bank in a highly industrialized area close to Dow Chemical Company. In addition, we found during our review of the loan sample that several low-income borrowers resided in upper-income census tracts.

Responses to Complaints

BNB did not receive any complaints regarding its CRA performance during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.