



SMALL BANK

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

PUBLIC DISCLOSURE

August 22, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Brenham National Bank
Charter Number 13678**

**2211 South Day Street
Brenham, TX 77833**

**Comptroller of the Currency
Houston Field Office
1301 McKinney Street, Suite 3410
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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Brenham National Bank (BNB) 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 January 7, 2002. This Public Evaluation covers the period of time from January 8, 2002 through 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 and other lending related activities are in the institution’s assessment area.
- Given the demographics of the assessment area, the distribution of borrowers reflects reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- The bank’s assessment area does not include any low- and moderate-income census tracts. Therefore, analysis of geographic distribution would not be meaningful and no weight was given to this performance factor when deriving the final CRA rating.

DESCRIPTION OF INSTITUTION

The Brenham National Bank (BNB) is headquartered in Brenham, Texas and had total assets of \$184 million as of December 31, 2005. The Brenham National Bank (BNB) was established in 1933 and operates one branch located at 2211 South Day Street in Brenham, Texas, approximately two miles south of the downtown area. 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 9 AM to 5 PM on weekdays. Drive-through lanes are open from 7:30 AM to 5:30 PM. on weekdays and 7:30 AM to noon on Saturdays. Four automated teller machines (ATMs) are available. One ATM is located at the main bank and the three others are located throughout Brenham.

The bank offers a variety of personal and commercial products and services, including free checking accounts. The primary lending strategy is providing commercial credit, with 41 percent of loans secured by commercial real estate and 11 percent for other commercial purposes. The bank is also an active residential real estate lender with 23 percent of the loan portfolio comprised of these loan types.

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

DESCRIPTION OF WASHINGTON COUNTY

BNB's assessment area (AA) includes all of Washington County, which is not located in a metropolitan area. According to 2000 U.S. Census data, there are six census tracts in the county including two middle-income and four upper-income geographies. The AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income areas.

Based on demographic information from the 2000 U.S. Census, the population of Washington County was 30,373 and consisted of 11,434 households and 8,014 families. The weighted average median family income for the AA is \$44,691. The Department of Housing and Urban Development (HUD) updates the median family income each year, and the 2005 updated median family income was \$42,000. The median housing value was \$86,896 and 63 percent of AA housing units are owner-occupied. Approximately 15 percent of households live with income below the poverty level in the AA.

Brenham is the largest city in Washington County and the County Seat, with a population of 13,507. The city is approximately 72 miles northwest of Houston and 84 miles east of Austin. There are over 30 manufacturing companies headquartered or represented in Brenham, including Blue Bell Creameries, Sealy Mattress Company, Mount Vernon Mills, PI Components, Valmont Industries, Cleaners Hanger Company, and Wallace Computer Services.

The local economy is strong and diverse. The AA has a competitive environment for financial services and BNB competes with branches of large national banks, local community banks and credit unions. Some of these financial institutions include JP Morgan Chase, Guaranty Bank, Bank of Brenham, N.A., Citizens State Bank, and Wells Fargo.

The County Commissioner of Washington County reported there was a need for affordable housing in the area. However, opportunities for financial institutions to participate in affordable housing initiatives are low. He felt the largest detriment to affordable housing is the rising cost of land. The City of Brenham is working with developers to assure that at least 15 percent of new subdivisions can be classified as affordable housing. The County has established a local chapter of Habitat for Humanity that has been responsible for five projects. The local high-school also has a vocational program that involves students in providing homes for low-income recipients.

The Commissioner also reported that the number of small business start-ups in the area was decreasing. The larger banks moving into the area are less likely to provide funds for start-up businesses. The community banks in the area are far more receptive to this need. Blinn College also offers small business counseling through their Small Business Development Center.

Demographic and Economic Characteristics of Washington County Assessment Area	
Population	
Total Population	30,373
Number of Families	8,014
Number of Households	11,343
Geographies	
Number of Census Tracts	6
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	33%
% Upper-Income Census Tracts	67%
Median Family Income (MFI)	
2000 MFI for AA	\$44,691
2005 HUD-Adjusted MFI	\$42,000
Economic Indicators	
Unemployment Rate	2%
2000 Median Housing Value	\$86,896
% Households Below Poverty Level	15%

Source: 2000 Census data and HUD updated income data.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio exceeds the standards for reasonable performance. Since the last CRA evaluation, BNB's loan-to-deposit ratio averaged 76 percent. Two similarly situated banks had an average ratio of 42 percent over the same period.

Lending in Assessment Area

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

We selected a sample of 61 loans from BNB's primary lending products: commercial and residential real estate related loans. The sample reflects 62 percent of the bank's loans by number and 57 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.

Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	21	64%	12	36%	33	\$3,721	56%	\$2,976	44%	\$6,697
1-4 Family	17	61%	11	39%	28	\$2,815	59%	\$1,989	41%	\$4,804
Totals	38	62%	23	38%	61	\$6,536	57%	\$4,965	43%	\$11,501

Source: Loan sample.

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

The distribution of loans to borrowers of different incomes and businesses of different sizes is reasonable. The distribution of credit to small businesses is good. The distribution of residential real estate loans among individuals of different income levels is poor and reflective of the characteristics of the real estate products offered by the bank, strong market competition, and the rising cost of land.

The distribution of residential related loans to borrowers of different incomes is poor. The loan sample reflects no loans made to low-income residents and only 6 percent by number and 3 percent by dollar made to moderate-income families. This performance compares unfavorably to demographic data that shows approximately 31 percent of families have either low- and moderate-incomes in the AA. This performance is reflective of the characteristics of the real estate products offered by the bank. The bank does not participate in the secondary market, which generally allows banks to offer loans products with lower rates, flexible underwriting criteria, and longer terms. All residential loan products are retained on the bank's books. Therefore, the bank's residential loan products generally have more stringent underwriting criteria, shorter terms, and higher rates than products offered through the secondary market. Also, lending to low- and moderate-income borrowers has also been hindered by the lack of affordable housing in the bank's AA due to the rising cost of land.

Table 2 – Borrower Distribution of Residential Real Estate Loans in Washington County								
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
% of 1-4 Family Bank Loans In AA by #	16%	0%	15%	6%	18%	19%	51%	75%
% of 1-4 Family Bank Loans in AA by \$	16%	0%	15%	3%	18%	11%	51%	86%

Source: Loan sample.

The distribution of commercial related loans to small businesses is good. The distribution of commercial related loans reflects 71 percent by number and 89 percent by dollar amount were made to businesses with annual revenues less than \$1 million. This compares favorably to the AA that has 67 percent of the businesses with annual revenues of less than \$1 million. Commercial lending represents 52 percent of the bank's portfolio.

Table 2A - Borrower Distribution of Loans to Businesses in Washington County				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	67%	4%	29%	100%
% of Bank Loans in AA by #	71%	24%	5%	100%
% of Bank Loans in AA by \$	89%	10%	1%	100%

Source: Loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans

We did not perform a geographic distribution analysis. This performance criterion does not lend any support to the final CRA rating assigned to this institution. The bank's AA does not include any low- and moderate-income census tracts; therefore, an analysis of the geographic distribution of the bank's loans would be meaningless.

Responses to Complaints

BNB 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.