



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 25, 2002

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**First National Bank Of Lake Jackson
Charter Number 15171**

**122 West Way
Lake Jackson, TX 77566**

**Comptroller of the Currency
Houston East 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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

First National Bank of Lake Jackson (FNB Lake Jackson) satisfactorily meets the credit needs of its assessment area, including low-and moderate-income individuals, in areas consistent with its resources and capabilities. This rating is supported by the following:

- The loan-to-deposit ratio is reasonable.
- A reasonable penetration of loans and other lending-related activities are in the bank's assessment area.
- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects a reasonable penetration among individuals of different income levels (including low-and moderate-income) and businesses of different sizes.

DESCRIPTION OF INSTITUTION

First National Bank of Lake Jackson (FNB Lake Jackson) is located in Lake Jackson, Texas and is wholly owned by Austin Colony, Inc. It is a \$132 million full service bank with the main office situated in Lake Jackson, Texas. Customers are also served through one full service branch and two (2) Automated Teller Machines (ATMs) and drive-in facilities. FNB Lake Jackson offers convenient banking hours and services at both locations. The bank's primary business focus is commercial loans but the majority of bank assets are in the investment portfolio. As of December 31, 2001, net loans represented 15% of total assets. The investment portfolio represented 76% of total assets. A breakdown of the lending activity is detailed in the table below.

Table 1

Loan Category	\$ (000)	%
Commercial Real Estate Loans	\$8,795	43%
Consumer Loans	\$4,648	23%
Residential Real Estate Loans	\$3,586	17%
Commercial Loans	\$2,541	12%
Other Loans	\$1,117	5%
Total	\$20,687	100%

No legal restrictions exist that would impede the bank's ability to meet the credit needs of the assessment area. FNB Lake Jackson's CRA Performance was last evaluated July 14, 1997 and a rating of "Satisfactory" was assigned.

DESCRIPTION OF ASSESSMENT AREA - BRAZORIA COUNTY, TEXAS

FNB Lake Jackson has defined the assessment area as Brazoria County, Texas. Brazoria County, Texas is located just south of Houston along the Texas Gulf Coast. The assessment area consists of fifty-five (55) census tracts. Of the fifty-five (55) census tracts within the assessment area, eleven (11) are defined as moderate-income, thirty-four (34) are middle-income and five (5) upper income. The five (5) remaining census tracts were not applicable to this income categorization. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

Information derived from the 1990 Census Bureau and 2001 Housing and Urban Development Agency (HUD) reports the updated 2001 median family income for the assessment area of \$57,100. Based on this data, low-income families comprise 19% of the assessment area, moderate-income 19%, middle-income 25%, and upper-income 37%. Seven percent (7%) of the families are below poverty level. A summation of the assessment area demographics is detailed in Table 2.

Table 2

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	50,892
Number of Households	64,352
<i>Geographies</i>	
Number of Census Tracts	55
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	20%
% Middle-Income Census Tracts/BNA	62%
% Upper-Income Census Tracts/BNA	9%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$39,344
2001 HUD-Adjusted MFI	\$57,100
<i>Economic Indicators</i>	
Unemployment Rate	2%
2001 Median Housing Value	\$59,812
% of Households Below Poverty Level	10%

Area economics conditions are good and unemployment is low. The major employment sectors are chemical, manufacturing, petroleum processing, offshore maintenance services, commercial fishing, and agriculture. The area's abundance of oil and location on the Texas Gulf is the attraction for one of the largest petrochemical complexes located in the area, Dow Chemical Co. Government jobs at the Texas Department of Criminal Justice correctional facilities, also are major employment generators. Other major employers are U.S. Contractors, Gulf States, Inc., local School Districts, and BASF Corp.

FNB Lake Jackson has a high degree of competition with a major credit union, Texas Dow Employees Credit Union, located in the area. This credit union has significant market share for consumer related lending which poses a problem for the other banks in the area. FNB Lake Jackson also competes with several other commercial banks, branches of multinational banks, insurance companies, and other non-bank entities.

Community contacts were not conducted during this examination because recent contacts had been made during the examination of another local bank. Prior community contacts with individuals knowledgeable of the economic and business development environment in the community identified small business and affordable housing loans as the primary credit needs. Also, the community contacts indicated that area banks needed to reach out to the minority communities more to determine the specific needs of these individuals.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB Lake Jackson's loan-to-deposit ratio is below average. As of December 31, 2001, the loan-to-deposit ratio was 19%. FNB Lake Jackson is the approved depository for several different public entities located throughout Brazoria County. This ratio is low mainly because the bank has a significant level of public funds, which skews the total loan-to-deposit ratio. In addition, the bank has identified two large deposit relationships, which further distorts the ratio. After adjusting for the public funds and the large deposit relationships, this ratio increased to 48%. As demonstrated in Table 3, this ratio is more in line with the other similarly situated banks in the area with averages of 48%, and ranged from 43% to 52%. FNB Lake Jackson's loan-to-deposit (LTD) ratio for the five most recent quarters is shown in Table 4.

Table 3

Institution	Assets (at 12/31/01)	Average LTD Ratio
First State Bank Clute	\$73,406	52%
Brazos National Bank	\$13,080	48%
Texas Gulf Bank, N.A.	\$207,985	43%
<i>FNB Lake Jackson</i>	\$132,448	23%

Table 4

Date	Total Loans	LTD Ratio
December 31, 2000	\$93,236	23%
March 31, 2001	\$98,355	22%
June 30, 2001	\$93,290	24%
September 30, 2001	\$102,749	21%
December 31, 2001	\$105,635	19%

Lending in Assessment Area

The majority of loans and other lending related activities are in the bank’s assessment area. FNB Lake Jackson’s lending in the assessment area exceeds the standards for satisfactory performance. We performed a review of the bank’s lending performance by reviewing a sample of loans originated since the last CRA examination. As illustrated in Table 5, this analysis revealed that 95% of the number and 99% of the dollar volume of loans originated are within the bank’s assessment area.

Table 5

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer	20	95%	265	95%	1	5%	15	5%
Residential RE	15	94%	613	99%	1	6%	3	1%
Commercial	19	95%	1,181	99%	1	5%	8	1%
Total Reviewed	54	95%	2,059	99%	3	5%	26	1%

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

The distribution of borrowers reflects a reasonable penetration among individuals of different income levels and businesses of different sizes, which meets the standard for satisfactory performance. We reviewed a sample of FNB Lake Jackson’s primary product lines consisting of residential, consumer, and business loans. The analysis reflected a level of lending to low-and moderate-income families, which is in line with area demographics for all types of loans.

As illustrated in the Tables below, of the residential loans sampled, 74% of the number and 60% of the dollar volume were extended to low-and moderate-income borrowers. Of the consumer loans reviewed, 55% of the number and 49% of the dollar volume were extended to low- and moderate-income borrowers. The sample of business loans reviewed found 79% of the number and 38% of the dollar volume of loans were extended to businesses with gross revenues of less than \$1 million per year.

Table 6

RESIDENTIAL REAL ESTATE LOANS								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	19%		19%		25%		37%	
	% of Number	% of Amount						
Total	27%	17%	47%	43%	7%	4%	20%	36%

Table 7

CONSUMER LOANS								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	22%		18%		20%		40%	
	% of Number	% of Amount						
Total	30%	22%	25%	27%	25%	21%	20%	30%

Table 8

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	87%	5%
% of Bank Loans in AA #	79%	21%
% of Bank Loans in AA \$	38%	62%

Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area and meets the standard for satisfactory performance. We performed an analysis of residential, consumer, and business loans originated from September 1997 through March 2002. The analysis reflects that the bank is lending in most tracts within the assessment area. The geographic distribution of loans are reflected in the Tables below.

Table 9

RESIDENTIAL REAL ESTATE LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied ⁴	0%		17%		70%		14%	
	% of Number	% of Amount						
Totals	0%	0%	7%	2%	80%	83%	13%	15%

Table 10

CONSUMER LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0%		17%		70%		13%	
	% of Number	% of Amount						
Totals	0%	0%	0%	0%	90%	85%	10%	15%

Table 11

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0%		20%		68%		12%	
	% of Number	% of Amount						
Totals	0%	0%	26%	63%	68%	23%	5%	14%

Qualified Investments and CD Services

FNB Lake Jackson provides and participates in numerous services and lending programs that serve to increase community development and redevelopment. FNB Lake Jackson has set a minimum loan amount of \$500 in order to service low-income customers. FNB Lake Jackson has originated loans to government entities and nonprofit organizations to:

- Improve water and sewer systems and for street upgrades;
- Construct a new Fire Department;
- Construct a building to house a non-profit organization; and,
- Provide funding for a local hospital.

Responses to Complaints

FNB Lake Jackson did not receive any CRA-related consumer complaints since the prior CRA examination dated July 14, 1997. A process for handling complaints is in place.

Fair Lending Review

An analysis of public comments and consumer complaint information, Home Mortgage Disclosure Act (HMDA) data, small business and consumer lending data was performed according to the OCC's risk-based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1997.