

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 22, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Bryan
Charter Number: 3446**

**2807 Texas Avenue
Bryan, Texas 77802**

**Office of the Comptroller of the Currency
Southwestern District
500 North Akard, 1600 Lincoln Plaza
Dallas, Texas 75201-3394**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the CRA performance of **The First National Bank of Bryan (FNB), Bryan, Texas**, prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of March 22, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

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

- C FNB’s lending performance is satisfactory given its size, financial condition, and known credit needs in its assessment area.
- C The loan-to-deposit (LTD) ratio is satisfactory and averaged 46% since our last examination.
- C A substantial majority of FNB’s loans are within its assessment area.
- C FNB has demonstrated a satisfactory willingness to extend loans to individuals of varying incomes and small businesses of different sizes.
- C The geographic distribution of loans is reasonable and consistent with the demographic composition of the assessment area.
- C There have been no complaints with respect to FNB’s CRA performance.

The following pages further describe FNB’s CRA performance.

The following table indicates the performance level of **The First National Bank of Bryan** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>The First National Bank of Bryan</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	Not Applicable, no complaints relating to the bank's CRA performance have been received.		

DESCRIPTION OF INSTITUTION

FNB is a 232 million institution headquartered in Bryan, Texas, approximately 110 miles east of Austin, Texas. Principal owner of the bank is The Bryan-Heritage Limited Partnership, a one-bank holding company located in Bryan. In addition to the main office, the bank has one additional full service and two mini-bank offices as well as seven automated teller machines located in its assessment area.

The institution's principal focus is to promote economic development in its assessment area through its lending programs and community involvement. FNB's primary business focus is commercial and residential real estate, small business, and consumer loan products. Net loans as of December 31, 1998, comprise 44% of total assets. The following reflects a detailed breakdown of FNB's loan portfolio as of December 31, 1998.

Loan Type	Dollar Amount (000's)	% of Total
Real Estate (RE) Construction	8,017	7.7
RE Farmland	1,902	1.8
RE Residential (1-4)	23,409	22.6
RE Multifamily Residential	4,544	4.4
RE Nonfarm Nonresidential	26,553	25.6
Agricultural Production	792	0.7
Commercial and Industrial	10,872	10.5
Credit Cards	257	0.3
Consumer	27,397	26.4
Other	20	-
Total	103,763	100.0

Banking services are provided Monday through Friday at each office as well as Saturday at one of the mini-bank facilities. Drive-through services are also provided Monday through Saturday at the two full service offices. FNB faces competition from area banks, savings and loans, credit unions, and investment brokerage firms. Based on its financial condition, the local economy, product offerings, competition, and prior performance, FNB has the ability to meet the various credit needs in its community. FNB's 24-hour

Internet web site provides information concerning the bank's services as well as loan and deposit products available, including rates for interest-bearing deposit accounts. FNB also has a 24-hour telephone assess system which allows customers to obtain account balance information, review account transactions, obtain an update on current interest rates, or transfer funds. At the last CRA examination in May 9, 1996, the bank's CRA rating was "Satisfactory." No legal impediments or other factors hinder the bank's ability to provide credit in its assessment area.

DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area includes all of Brazos County which is located in the Bryan-College Station Metropolitan Statistical Area. This assessment area includes the cities of Bryan and College Station, which surround and include each banking office. This area meets the requirements of the regulation and does not arbitrarily exclude LMI geographies. Based on 1990 U.S. Census data, Brazos County has a population of 122 thousand (M). The assessment area includes two low-income tracts, six moderate-income tracts, 10 middle-income tracts, four upper-income tracts, one tract which consists of Texas A&M University (A&M), and one tract which contains the College Station Business Park.

According to the 1990 housing data as provided in the census, there are 49M housing units in the bank's assessment area of which 38% are owner occupied, 52% are rental occupied, and 10% are vacant. The median year built for housing was 1974, with a median value of 65M.

Approximately 24% of the families in the assessment area are considered low-income. Moderate-income families approximate 15% of the population, while middle- and upper-income families comprise the remaining 61 percent. Approximately 28% of the households are below the poverty level. The local economy is considered very good with an unemployment rate of under 2%. Primary industries within the assessment area include education, retail trade, services, and light manufacturing. Major employers in the area include A&M, the Bryan Independent School District, and St. Joseph Regional Hospital. Income data from the 1990 census revealed that the weighted-average median family income for this area is 31M. Updated 1998 information indicates that the weighted-average median family income has increased to 40M.

In order to gather more current information on the nature of the community and potential lending opportunities in the assessment area, we contacted two community leaders during this examination. One contact was a representative of the City of Bryan Community Development Organization. The other contact was a representative of the Bryan-College Station Economic Development Corp. Both contacts mentioned that they were unaware of any unmet community development or other credit-related needs in Brazos County. They further stated that FNB is active in the community and responsive to credit needs in the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

FNB's LTD ratio is satisfactory, given its asset size, financial condition, and lending opportunities in the assessment area. Since the last CRA examination, the LTD ratio has steadily increased from 42% on March 31, 1996, to 49% percent on December 31, 1998. The average LTD ratio over the past 11 quarters was 46% which is up from an average 37% during the previous examination. However, this performance is below FNB's one main competitor of similar size and characteristics, whose LTD ratio averaged 65% during this same period. FNB's LTD ratio is not truly reflective of its loan production. The bank has a mortgage department which originates conventional mortgage loans. Many of these loans are sold to permanent investors in the secondary market at time of funding. FNB was recently approved to originate and sell Federal Housing Association mortgage loans in the secondary market. Since May 9, 1996, loans sold to permanent investors totaled 3,997M for the remainder of 1996, 7,295M in 1997, and 13,413M in 1998. Had these loans remained on the bank's books, the LTD ratio would have been higher.

The bank originates a satisfactory number of small consumer loans that benefit LMI individuals and families. For the two year period ending March 1, 1999, this institution originated 602 consumer loans of less than or equal to 2.5M.

FNB is involved in loan programs that assist in meeting affordable housing demands and higher education needs in their assessment area. FNB participates in the City of Bryan Homeowners Assistance Program which provides low interest loans to LMI home buyers. FNB has 436M in loans outstanding under this program with an additional 64M available for funding. Since the last CRA examination, the bank has originated three loans totaling 121M under this program. FNB has committed 250M under a similar program with the City of College Station. In 1998, this bank originated a 1 million loan to a partnership to construct a 96 unit apartment complex in College Station. The units will be 100% leased to LMI families. FNB will provide permanent financing after construction is completed. Finally, FNB is a major participant in providing government-guaranteed student loans. Since June 1996, FNB has disbursed 24,206M in student loans primarily to students attending Texas A&M, Blinn Junior College, and Sam Houston State University.

Management has also focussed on providing loans that will enhance economic and community development in the communities they serve. FNB is the lead bank in a proposed 4 million loan to the Bryan-College Station Economic Development Corporation (Corporation). The loan proceeds will be used to build a commercial building which will be used by a company that is moving its operations to Brazos County. The Corporation projects up to 500 moderate-income level jobs will be created as a result of this community investment. FNB is considering a 500M investment in a Small Business Investment Corporation sponsored by the Texas Independent Bank.

Proceeds will be used to provide equipment financing to businesses in Texas and contiguous states.

Lending in the Assessment Area

A substantial majority of the bank's loans are within its assessment area. Using a sample of consumer loans reviewed during the examination and Home Mortgage Disclosure Act (HMDA) information since 1996. We performed an analysis of lending patterns within the assessment area. This analysis determined that 84% of the number and 81% of the dollar amount of consumer loans were within the bank's assessment area. In addition, 93% of the number and 93% of the dollar amount of mortgage loans were within the bank's assessment area.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The loan portfolio reflects a satisfactory distribution of consumer loans among individuals of various income levels and a good dispersion to businesses of different sizes. In order to assess this bank's performance in this criteria, we used HMDA information relative to mortgage loan products originated since 1996, and a sample of consumer and business loans originated during the same period. Our analysis indicates that FNB lends to all applicants, regardless of their income category. Our analysis of HMDA information, however, determined that the volume of mortgage loans to low-income borrowers was well below area demographics. Based on the 1990 census data, low-income families represent 24% of the assessment area. Our analysis indicates that only 5% of mortgage loans were made to low-income families. According to information provided by management and local Realtor sales information, there are very few homes listed in Brazos County of which a low income family could qualify for. As mentioned previously, FNB is involved in loan programs to try to help meet affordable housing demands in their assessment area. The table listed below summarizes our analysis of lending activity in the assessment area by different incomes levels.

Loans to Borrowers of Different Income Levels										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total	
Area Demographics	24.40%		15.32%		19.69%		40.59%		100.00%	
	#	%	#	%	#	%	#	%	#	%

Mortgage/Home Improvement/Refinanced Loan Distribution	10	5%	27	14%	29	15%	131	66%	197	100%
Consumer Loan Distribution	6	30%	6	30%	4	20%	4	20%	20	100%
Combined Loan Distribution	16	7%	33	15%	33	15%	135	63%	217	100%

FNB originates a satisfactory number of commercial real estate loans, a number of which have been to “small businesses” with revenues less than 1MM. Management continues to focus on providing loans that will enhance the local economy. The chart below reflects the results of our analysis of a sample of commercial real estate loans originated since 1996.

Loans to Small Businesses										
Revenue Ranges	< \$100M		\$101M -- \$250M		\$251M - \$500M		\$501M -- \$1 MM		> \$1 MM	
	#	%	#	%	#	%	#	%	#	%
Commercial RE	4	18%	6	27%	3	14%	5	23%	4	18%

Geographic Distribution of Loans

The geographic distribution of FNB’s loans is reasonable given the demographics of the assessment area. Our analysis included all mortgage-related loans originated in 1997 and 1998, and a sample of consumer loans originated since 1996.

Our analysis appeared to indicate that the geographic distribution of mortgage loans did not reflect the make-up of the bank’s assessment area. Of the 22 census tracts that are applicable to FNB’s assessment area, two tracts or 9% are considered low-income while six tracts or 27% are considered moderate-income. Our loan sample revealed that less than 1% of mortgage loans were made within low-income census tracts and 10% within moderate-income tracts. However, the low number of low and moderate-income tracts coupled with limited lending opportunities and physical restrictions of these areas, contributed to the low number of mortgage loans within these areas. Of the two low-income census tracts, one is located in downtown Bryan which has very few active listings of homes for sale. The other tract is located northeast of A&M in College Station which consists mostly of student housing and a city park. Additionally, the main office is located in a middle-income segment of the assessment area.

The chart below reflects the results of our sample of the geographic distribution of mortgage and consumer loans originated within the bank's assessment area.

Geographic Distribution of Loans By Census Tracts										
	Low Income Areas		Moderate Income Areas		Middle Income Areas		Upper Income Areas		Total	
Area Demographic Characteristics	9%		27%		45%		19%		100%	
Number of Census Tracts	2		6		10		4		22	
	#	%	#	%	#	%	#	%	#	%
Mortgage Purchases/Refinance/Home Improvement	1	-	18	10%	88	47%	79	43%	186	100%
Consumer	0	-	9	41%	8	36%	5	23%	22	100%
Combined Total	1	-	27	13%	96	46%	84	41%	208	100%

Response to Complaints

No complaints relating to CRA performance have been received by FNB.

Compliance with Fair Lending Laws and Regulations

A fair lending examination was conducted as part of a compliance examination of FNB. The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. No fair lending

violations were identified.