



SMALL BANK

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

PUBLIC DISCLOSURE

October 6, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Texas Gulf Bank, N.A.
Charter Number 10420**

**200 West Second Street
Freeport, TX 77541**

**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 following factors support this rating:

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels and businesses of different sizes.
- A substantial majority of loans reviewed are located within the bank's assessment area.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area.
- Community development services enhance credit availability within the assessment area.

DESCRIPTION OF INSTITUTION

Texas Gulf Bank, N.A. (TGB) is a commercial bank headquartered in Freeport, Brazoria County, Texas. TGB is a wholly-owned subsidiary of Texas Gulf Bancshares, Inc., a one-bank holding company. As of December 31, 2005, total assets were \$199 million. Commercial related lending represents the largest portion of the loan portfolio at 45 percent of loans. Residential real estate lending is also a primary business focus representing 29 percent of the loan portfolio. TGB is a full service institution offering various commercial and retail banking services. Fiduciary services are also offered through its trust department.

TGB serves the community from six locations all situated in Brazoria County. This includes the main office and five full service branch offices. Branch locations provide a wide array of services including drive-up service, and proprietary automated teller machines (ATMs). One branch in West Columbia was opened during this evaluation period in 2004.

No legal or financial factors impede TGB from meeting the credit needs of its community. TGB received a Satisfactory rating at the last CRA examination, prepared August 27, 2001.

DESCRIPTION OF BRAZORIA COUNTY

TGB defines its assessment area as Brazoria County. Brazoria County is part of the Houston-Sugarland-Baytown MSA. The bank's assessment area (AA) complies with legal requirements of the CRA and does not arbitrarily exclude low-or moderate-income areas. The county seat of Brazoria County is located in Angleton, Texas. TGB's primary market is in the sector of Brazoria County known as Brazosport. Brazosport is a multi-city community located in south Texas at the mouth of the Brazos and San Bernard rivers, approximately 50 miles south of Houston. The area includes the following cities: Brazoria, Clute, Freeport, Jones Creek, Lake Jackson, Oyster Creek, Quintana, Richwood and Surfside Beach. Brazoria County demographic characteristics are detailed below.

Demographic and Economic Characteristics of Brazoria County Assessment Area	
Population	
Total Population	137,081
Number of Families	34,499
Number of Households	45,330
Geographies	
Number of Census Tracts	28
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	18%
% Middle-Income Census Tracts	64%
% Upper-Income Census Tracts	18%
Median Family Income (MFI)	
2000 MFI for AA	\$52,208
2005 HUD-Adjusted MFI	\$59,400
Economic Indicators	
Unemployment Rate	2.8%
2000 Median Housing Value	\$68,069
% Households Below Poverty Level	12%

Source: 2000 Census data and HUD updated income data.

Area economic conditions are good with low unemployment. Major employment sectors are chemical, manufacturing, petroleum processing, offshore maintenance services, commercial fishing, and agriculture. Large area employers include Dow Chemical, U.S. Contractors, Gulf States, Inc., Texas Department of Criminal Justice, School Districts, and BASF Corp. Competition is provided from several community banks, branches of large national banks, a large credit union, and several non-bank financial service providers.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Performance was evaluated based on residential mortgage lending reported for HMDA purposes and a sample of commercial loans. These loan products were evaluated since they are the bank's primary lending products. The loan-to-deposit ratio reflects a reasonable level of lending, and a substantial majority of loans are made within the bank's assessment area (AA). Loans are made to borrowers in different income categories and to small businesses. No AA census tracts are designated as low-income, so less weight is placed on the geographic distribution performance factor in the overall rating. The level of lending in moderate-income census tracts indicates an excellent geographic distribution. Community development services are responsive to community needs.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. Texas Gulf Bank achieved a 56 percent loan-to-deposit ratio since the last evaluation. Performance compares favorably with three similar banks in the same assessment area. The similar banks had an average loan-to-deposit ratio of 51 percent for the same period, and their individual ratios ranged from 15 percent to 76 percent.

Lending in Assessment Area

A substantial majority of loans are in the institution's AA. Performance is especially strong for residential real estate loans with 92 percent of the number being originated within Brazoria County.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	24	83	5	17	29	1,517	70	642	30	2,159
Home Purchase	83	89	10	11	93	7,719	85	1,358	15	9,077
Home Improvement	24	100	0	0	24	865	100	0	0	865
Home Refinance	31	94	2	6	33	2,510	86	399	14	2,909
Totals	162	91	17	9	179	12,611	84	2,399	16	15,010

Source: Home refinance, Home improvement, and Home refinance loan data was reported under HMDA, commercial loan data was derived from a sample.

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

The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels and businesses of different sizes.

Strong performance was noted for home refinance loans to low-income borrowers and home improvement loans to moderate-income borrowers. Overall adequate performance was noted for home improvement loans to low-income borrowers and home purchase loans to moderate-income borrowers. The two areas that bank performance is significantly lower than the demographic comparator are home purchase loans to low-income borrowers and home refinance loans to moderate-income borrowers. Although performance for these two areas need improvement, overall performance is considered reasonable when considering strong and adequate performance in the other areas previously mentioned. TGB made two no interest loans to Habitat for Humanity during this evaluation period that totaled \$77 thousand. Habitat for Humanity creates affordable housing for low-income families. These loans further demonstrate responsiveness to meeting affordable housing needs of low-income borrowers.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Home Purchase	21.9	9.6	18.1	12.1	20.9	21.7	39.1	50.6
Home Improvement	21.9	16.7	18.1	20.8	20.9	33.3	39.1	25.0
Home Refinance	21.9	25.8	18.1	6.5	20.9	25.8	39.1	38.7

Source: data reported under HMDA. Borrower income not available for 6% of home purchase, 4.2% of home improvement, and 3.2% of refinance loans.

Lending to businesses of different sizes is reasonable. More weight was placed on the number of loans made to businesses with revenues less than \$1 million and the bank had strong performance by this measure. Performance for the dollar amount lent to small businesses indicates a poor penetration compared with the percent of small businesses in Brazoria County. However, one very large loan is responsible for the majority of the dollar volume lent to larger businesses.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	65	4	31	100%
% of Bank Loans in AA by #	75	25	0	100%
% of Bank Loans in AA by \$	24	76	0	100%

Source: Loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans

Geographic distribution performance exceeds standards for satisfactory performance. Since there are no low-income census tracts in Brazoria County, the assessment is based on lending in

moderate-income census tracts.

The geographic distribution of mortgage loans is excellent. For home purchase and home refinance loans, the penetration of loans in moderate-income areas exceeds the demographic comparator. Performance for home improvement loans is reasonable.

Table 3 – Geographic Distribution of Residential Real Estate Loans in Brazoria County								
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
Home Purchase	0	0	29.9	30.1	50.7	47.0	19.4	22.9
Home Improvement	0	0	29.9	20.8	50.7	54.2	19.4	25.0
Home Refinance	0	0	29.9	45.2	50.7	48.4	19.4	6.4

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

The level of commercial loans in the moderate-income geographies is strong and the penetration significantly exceeds the percentage of AA businesses located in these census tracts.

Table 3A – Geographic Distribution of Loans to Businesses in Brazoria County								
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
	0	NA	18.7	29.0	62.7	46.0	18.6	25.0

Source: Loan Sample; D & B data

Qualified Investments and CD Services

Bank personnel have provided financial expertise to organizations that qualify as community development services. These services enhance credit availability within the assessment area and support the overall Satisfactory rating.

Affordable Housing – TGB provided financial services to Habitat for Humanity, an organization that serves a CD mission of providing affordable housing to low-income people. Service activity was provided for a school fund raising activity that included counting coins and providing accounting services for the fund raiser.

Basic Services – TGB provided CD services through accepting donations and conducting fund raising activities after Hurricane Katrina. An employee serves on the finance committee for an inpatient/outpatient facility that provides shelter, food, counseling and health care to low- and moderate-income persons. An employee serves on the Board for a group that helps low-income handicapped children by providing rehabilitation and educational programs.

Financial Education – TGB helped provide home buying and investment training for LULAC,

which primarily targets low- or moderate-income people. Financial training was also provided through an English as a second language program, and was primarily attended by low- and moderate-income people.

Responses to Complaints

No complaints related to CRA performance were received during the evaluation period. This has a neutral impact on the overall CRA rating.

Fair Lending or Other Illegal Credit Practices Review

We conducted a Fair Lending examination in February 2007, and found no evidence of illegal discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.