



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 21, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Granbury
Charter Number: 3727

101 E. Bridge Street
Granbury, TX 76048

Office of the Comptroller of the Currency

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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 Lending Test is rated Satisfactory.

The Community Development Test is rated Satisfactory.

The First National Bank of Granbury (FNB) has a satisfactory record of meeting community credit needs. This conclusion is based on the following:

- A substantial majority of FNB's loans were originated within the assessment area (AA).
- The loan-to-deposit (LTD) ratio is reasonable and averaged 49% during the evaluation period.
- FNB's distribution of loans to businesses with gross revenues of less than \$1 million is excellent. FNB's overall distribution of home mortgage products and consumer loans to low- and moderate-income (LMI) families is reasonable when considering performance context issues.
- No consumer complaints regarding FNB's CRA performance were received during this evaluation period.
- FNB's community development (CD) performance is satisfactory and demonstrates adequate responsiveness to the CD needs of its AA.

Scope of Examination

FNB qualifies as an Intermediate Small Bank (ISB) under the CRA regulation and is thus subject to a Lending Test and a CD Test. The Lending Test evaluates the bank's record of helping to meet the credit needs of its AA through its lending activities. The Community Development Test evaluates a bank's CD lending, qualified investments, and services.

The evaluation under the Lending Test covers loans originated between June 1, 2009 and May 15, 2012. Performance under the Lending Test was assessed based on a review of FNB's commercial loans (including commercial real estate and commercial and industrial loans), residential real estate loans, consumer unsecured loans and consumer auto loans. Our sample included 20 commercial, residential and auto loans and 40 unsecured consumer loans originated during the evaluation period. Community Development activities were evaluated over the same period.

Description of Institution

FNB is a community bank that was chartered in 1887 in Granbury, Hood County, Texas.

The bank operates its main office in historic downtown Granbury in its original location on the courthouse square. FNB has six full-service branches spread throughout Hood County and one mobile branch that is used to provide service at senior citizen centers and schools. The bank also has a Loan Production Office, FNB Mortgage Group, located on State Highway 377 in Granbury. Drive-thru services are provided at the main office and all branch facilities, except the Kroger location. FNB has nine Automatic-Teller-Machines (ATM). One ATM is located at each of the six branches; two ATMs are located at the main office and one ATM is located a convenience store. Hours of operation are commensurate with other area banks.

FNB is a wholly-owned subsidiary of First Granbury Bancorporation, a one-bank holding company headquartered in Granbury, Texas. FNB has no operating subsidiaries and had no merger or acquisition activity during the evaluation period. FNB has not opened or closed any branches during this evaluation period. There are no legal, financial or other factors impeding the bank's ability to help meet the credit and community development needs in its assessment area.

FNB offers the customary credit products and depository accounts. As of March 31, 2012, the bank's total assets were \$422 million, total loans were \$167 million, and total deposits were \$377 million. The bank offers a full range of loan products and deposit services. Loan products offered consist of residential mortgage loans, residential construction loans, commercial real estate loans, commercial loans, agriculture loans and consumer loans. Loans are funded through deposits. The following table reflects the loan portfolio as of March 31, 2012:

Loan Portfolio Composition as of March 31, 2012		
Loan Category	\$(000)	%
Commercial Real Estate	65,790	39.5
Commercial & Industrial	8,994	5.4
Residential Real Estate	67,122	40.3
Consumer & Other	13,991	8.4
Farm loans & Agriculture RE	10,660	6.4
Total	\$166,557	100.00

Source: March 31, 2012 Report of Condition

Banking competition is aggressive in Hood County and competition from other financial institutions is increasing. FNB's competitors include branches of several local community banks, branches of large regional and national institutions, and several mortgage/finance companies.

Community contacts conducted in connection with this examination disclosed that there are no significant gaps in local financial institutions meeting the credit needs of the AA. The primary credit needs identified include financing for affordable housing and other residential mortgage lending, small business loans in support of economic development, and consumer loans.

FNB received an overall rating of "Satisfactory" during its previous CRA examination dated June 15, 2009, and using ISB CRA Procedures.

Description of Assessment Area

FNB has designated Hood County as its AA. Hood County is a rural community that has experienced tremendous growth over the past two decades. Hood County is located in north central Texas not far from the Dallas/Fort Worth Metroplex. Granbury is the county seat and the largest city in the county. Granbury is located 35 miles southwest of Fort Worth, Texas.

The bank's designated AA comprises five census tracts, two middle- and three upper-income geographies. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income areas. Specific demographic and economic data for this area are listed below.

Demographic and Economic Characteristics of Hood County Assessment Area	
Population	
Total Population	41,100
Number of Families	12,122
Number of Households	16,135
Geographies	
Number of Census Tracts	5
% Low-Income Census Tracts	0.0%
% Moderate-Income Census Tracts	0.0%
% Middle-Income Census Tracts	40.0%
% Upper-Income Census Tracts	60.0%
Median Family Income (MFI)	
2000 MFI for AA	\$36,380
2011 HUD-Adjusted MFI	\$48,600
Economic Indicators	
Unemployment Rate	2.85%
2000 Median Housing Value	\$90,510
% Households Below Poverty Level	8.96%

Source: 2000 Census data and HUD updated income data.

Based on 2000 U. S. Census data, the AA area has a total population of 41,100. There are 19,105 housing units in the AA, of which 69 percent are owner-occupied, 16 percent are renter-occupied and 15 percent are vacant. Approximately 10 percent of the families in the AA are considered low-income. Moderate-income families approximate 15 percent of the population, and middle- and upper-income families comprise 17 percent and 58 percent of the population, respectively. The population of Hood County has grown significantly over the past ten years. The population of Hood County is estimated at 52,800 for 2010.

Based on 2011 Business Geodemographic Data, there are 7,326 businesses in the AA, of which 73 percent reported gross annual revenue less than or equal to \$1 million and 2 percent reported gross annual revenue greater than \$1 million. Because reporting is voluntary, 25 percent or 1,838 businesses did not report revenues.

Economically, Hood County is growing. New residents in the community include middle-class families relocating from the Dallas/Fort Worth Metroplex and retirees. The major attraction is the quality of life, the easy commute to and from the DFW metroplex, Lake Granbury, and local attractions, including historic Granbury Square, and the Granbury Opera House. The workforce is primarily made of the retail trade, education, health and social service industries. Leading employers in the area include Granbury ISD, Hood County, city of Granbury, Barnett Shale drilling companies, Wal-Mart, Lake Granbury Medical Center, Lowe's, and Home Depot.

Conclusions with Respect to Performance Tests

LENDING TEST

FNB's performance under the Lending Test is **Satisfactory**.

FNB's primary business lines are commercial lending and residential real estate lending. In our sample, we included these two types of lending as well as consumer auto loans and consumer unsecured loans. Equal weight was given to each type of lending when evaluating lending performance based on the criteria tested below.

Loan-to-Deposit (LTD) Ratio

FNB's LTD ratio is reasonable and meets the standards for satisfactory performance given the bank's size, financial condition, and credit needs in its assessment area. FNB reflects a willingness to provide credit to the AA. FNB's LTD ratio is in-line, although below, the LTD ratios of the other banks considered in the comparative group.

The LTD ratio measures the extent to which the bank has returned the deposits it has acquired to the community in the form of loans. The average of this ratio for each quarter-end since the previous CRA examination is used to determine performance. In the 12 quarters since the prior exam, FNB's average loan-to-deposit ratio is calculated at 48.95 percent. The ratio ranged from 52.43 percent as of the third quarter 2009, to 45.18 percent as of the fourth quarter 2011. The loan-to-deposit ratio has declined slightly over the past three years due to soft loan demand. At the last CRA exam, the average LTD ratio was 50.69 percent.

The average LTD ratio of other community banks with branches in the AA during the evaluation period was 61 percent. Although FNB's LTD ratio is lower than local competitors, FNB reflects a willingness to provide credit in light of mitigating factors. FNB sells a significant portion of its real estate mortgage loan portfolio to secondary

market investors. This would account for a lower loan-to-deposit ratio. During the assessment period, FNB sold \$67 million in originated mortgages into the secondary market. If all or a portion of these loans had been retained, the average LTD ratio would be much higher. Additionally, none of other community banks in the AA have offices located only in Hood County.

Lending in Assessment Area

The bank's lending activities meet applicable standards and reflect the bank's commitment to meeting the credit needs of its community. A substantial majority of the loans in all the 4 lending lines we tested (commercial, residential mortgage, auto and unsecured loans) were made within the bank's AA. As depicted in the table below, 87 percent of the number and 80 percent of the dollar amount of loans were originated inside FNB's AA.

Table 1 - Lending in Hood County AA								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial & CRE	16	80%	\$1,869	67%	4	20%	\$923	33%
Single Family Residential	16	80%	\$1,723	76%	4	20%	\$541	24%
Consumer Auto	18	90%	\$43	85%	2	10%	\$7,538	15%
Consumer Unsecured	39	97%	\$154	93%	1	3%	\$11	7%
Total Reviewed	89	87%	\$3,789	80%	11	13%	\$9,013	20%

Source: Loan Sample.

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

Overall, FNB's distribution of loans reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes and meets the standards for satisfactory performance.

Residential Loans

FNB's distribution of residential mortgage loans among borrowers of different income levels is adequate. For our analysis, we compared the distribution of the bank's loans among the low-, moderate-, middle- and upper-income families with the percentages of families in these respective income levels in the AA. The distribution of our sample of residential loans was 10 percent to low-income families, 20 percent to middle income families and 60 percent to upper-income families. Income information was unavailable for 2 or 10 percent of our sample loans.

The distribution of loans to low-income families reflects a reasonable penetration as 10 percent of residential loans were made to low-income families and 10 percent of families are considered as low-income in the AA. The bank had no loan penetration to moderate-income families as none of the loans in our sample were made to families

within this income bracket. Approximately 15 percent of the families in the AA are considered to be moderate-income. Residential mortgage loans for middle- and upper-income families were in line with Hood County demographics.

In evaluating the bank's performance with respect to residential mortgage lending, we took into consideration FNB's continued participation in the USDA Rural Development Single Family Housing Loan Guarantee Program. The program is geared towards assisting LMI individuals and/or families to purchase their own home. Features include 100% financing, competitive interest rates and flexible credit guidelines. During the evaluation period, loans originated in conjunction with the USDA program to LMI families in the AA totaled \$10.1 million, demonstrating the bank's commitment to meeting the credit needs of low- and moderate-income individuals and families for housing in the community. During the evaluation period FNB originated and kept on its books, 120 single family residential mortgage loans with an original amount of less than \$100 thousand. These residential mortgage loans total about \$5.5 million, for an average loan size of \$46 thousand.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Residential Loans	10%	10%	15%	0%	17%	20%	58%	60%

Source: loan sample; U.S. Census data.

Commercial Loans

FNB's distribution of loans among businesses of different sizes is excellent. We evaluated the distribution of commercial loans extended by FNB to small businesses to the percentage of small businesses in the AA.

Small businesses are categorized as businesses with annual revenues less than \$1 million. The distribution of the loans in our sample demonstrated the bank's strong efforts to lend to small businesses, as 80 percent of the total number of loans and 89 percent of the dollar volume of loans were made to small businesses. The bank's penetration of lending to small businesses compares favorably with the 73 percent estimated small businesses within the bank's AA.

Table 2B - Borrower Distribution of Loans to Businesses in Hood County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	73%	2%	25%	100%
% of Bank Loans in AA by #	75%	5%	20%	100%
% of Bank Loans in AA by \$	89%	7%	4%	100%

Source: Loan sample; Dunn and Bradstreet data.

Consumer Auto Loans

FNB's distribution of consumer auto loans is satisfactory. We evaluated the percentage of bank loans in our sample to the percentage of families that are classified as low-, moderate-, middle-, and upper-income. FNB's distribution of consumer auto loans to low-income families reflects excellent penetration, as approximately 25 percent of the bank's auto loan originations were to low-income families, whereas 10 percent of the families are considered to be low-income. The bank's distribution of consumer auto loans to moderate-income families reflects satisfactory penetration, as 15 percent of the bank's auto loans were made to moderate-income families, whereas 15 percent of families are considered to be in this income bracket.

Consumer Unsecured Loans

FNB's distribution of consumer unsecured loans is satisfactory. We compared the percentage of bank loans to the percentage of families that are classified low-, moderate-, middle-, and upper-income. FNB's distribution of consumer unsecured loans to low- and moderate-income families reflects excellent penetration, as approximately 35 percent of the bank's unsecured consumer loans were made to LMI families, whereas 25 percent of the families in the AA are considered to be in these income brackets. During the evaluation period, consumer loans originated at FNB in the amount of \$1,000 or less, total \$652 thousand. The bank has no minimum loan amount in policy or practice. This is another indicator of the bank's willingness to meet the credit needs of its AA.

Table 2C - Borrower Distribution of Consumer Loans in Hood County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Families	% of Number of Loans
Consumer Loans (Unsecured)	10%	25%	15%	10%	17%	18%	58%	47%
Consumer Loans (auto)	10%	35%	15%	15%	17%	5%	58%	35%

Source: loan sample or data collected by the bank; U.S. Census data.

Geographic Distribution of Loans

A review of the distribution of loans by geography was not performed, as the analysis would not be meaningful. There are no low- or moderate-income census tracts (CTs) in the AA. We did not identify any conspicuous gaps in lending performance within the middle- and upper-income CTs. FNB is lending in all of the CTs within its AA.

Responses to Complaints

There have been no consumer complaints relating to FNB's CRA performance during the evaluation period.

COMMUNITY DEVELOPMENT TEST

FNB's performance under the Community Development Test is **Satisfactory**.

FNB demonstrates adequate responsiveness to the needs of its AA through qualified CD investments, loans and services, considering the institution's size, financial condition and the need and availability of such opportunities in its AA.

Number and Amount of Community Development Loans

The number and amount of CD loans is adequate. FNB currently has two CD loans totaling \$1.35 million. FNB originated one CD loan in 2012 in the amount of \$1 million. The loan was extended to the Senior Housing Crime Prevention Foundation, a national non-profit organization that benefits low- and moderate-income senior citizens. The funds from FNB's loan were used to provide protection, security and improved quality of life to elderly residents at a local Granbury nursing home.

FNB originated one CD loan in the amount of \$392 thousand in June 2008. The current balance of the loan is \$350 thousand. This loan provided permanent financing for the construction of a senior citizen's center, which houses the Hood County Committee on Aging. This organization provides services and activities that significantly impact LMI individuals in the AA. This organization's mission is to meet the needs of the senior citizens of Hood County. This is accomplished through an extensive on-site meals program, meal delivery program (Meals on Wheels), transportation, homemaker housekeeping services, and daily activities designed to keep seniors active and involved.

Services provided by both organizations are tailored to primarily benefit LMI elderly individuals in the AA.

Number and Amount of Qualified Investments

The number and amount of qualified investments is adequate. During the evaluation period, FNB invested a total of \$698 thousand in qualified investments and donated \$17 thousand to qualified CD organizations which provide services and activities that benefit LMI individuals and or promote economic development.

FNB invested \$448 thousand in the Small Business Investment Companies Fund, an organization which promotes economic development by providing financing to small businesses. In addition, \$250 thousand was invested in the Texas Mezzanine Fund (TMF). TMF provides financing for businesses located in distressed areas, women- or minority-owned business, and small businesses that create jobs for LMI individuals. TMF also provides financing for developers of affordable housing targeted to families, senior citizens, and households with special needs.

Extent to Which the Bank Provides Community Development Services and Responsiveness to Community Development Needs

The level of CD services provided reflects adequate responsiveness to the needs and opportunities in the AA. FNB is active in the community and provides services that benefit LMI individuals and families.

FNB's service delivery systems are reasonably accessible to geographies and individuals of different income levels in the AA. Banking services are delivered primarily through FNB's main office, mortgage office and six branches, all of which are placed in easily accessible locations in throughout the AA. Each branch is supported by an ATM and offers a range of traditional retail banking services and products. FNB also has a mobile branch which expands its services to the AA. Alternative delivery systems include telephone banking, ATM/Debit cards, and Internet banking. Banking hours provide adequate accessibility throughout the AA. All locations maintain standard banking hours Monday through Friday with extended lobby hours on Friday. All motor bank locations and the Kroger branch offer extended evening and weekend hours. These services enhance the accessibility of the branches.

FNB's community development services reflect adequate responsiveness to the needs of its AA. FNB's employees participate in several fund raising and volunteer activities for several non-profit organizations which provide community development services for LMI individuals and families with its AA.

In addition, the bank is an approved lender for the USDA Rural Development Single Family Housing Loan Guarantee Program. USDA mortgages are government-backed loans that target LMI single family homebuyers in rural areas, to enable these individuals purchase their own home. Features of the USDA loans include; low 30-year fixed rates, 100% financing, no requirement for private mortgage insurance, and relaxed credit guidelines.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.