



PUBLIC DISCLOSURE

August 02, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Gilmer
Charter Number 5288

206 US Highway 271 North, Gilmer, TX 75644

Office of the Comptroller of the Currency

1800 NW Loop 281 Suite 306, Longview, TX 75604-2516

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 loan-to-deposit ratio is more than reasonable based on the bank's performance context and lending opportunities within its assessment area (AA).
- A majority of the bank's lending is extended within its AA.
- The geographic distribution of loans reflect excellent dispersion throughout the AA.
- The bank had reasonable penetration among individuals of different income levels and business of different sizes.

Scope of Examination

The scope of the examination was to assess the bank's ability to meet the credit needs of the communities in which it operates. The bank was evaluated under the Intermediate Small Bank Community Reinvestment Act (CRA) performance criteria. The examination included a full scope review of two AAs consisting of the Upshur County AA and the Non-MSA AA. We based conclusions on the bank's lending performance on each AA's primary products for 2015 and 2016. The primary products for both AAs were business loans, consumer loans, and residential real estate loans. We used Home Mortgage Disclosure Act data for residential real estate loans and a sample of 20 consumer loans and 20 business loans. The community development test included a review of investments, services, and loans made during the evaluation period in the AAs that meet the definition of community development.

Description of Institution

The First National Bank of Gilmer (FNB) is a \$336 million bank owned by First Gilmer Bancshares, Inc., a bank holding company that is wholly owned by First Gilmer Delaware, Limited. The main office of FNB is located at 206 US Highway 271 North, Gilmer, Texas. The bank has nine full service locations, which include the main office in Gilmer, and other locations in Big Sandy, Pittsburg, Mount Vernon, Quitman, Mineola, Emory, Ore City, and Diana. The bank also has a deposit branch in Wal-Mart in Gilmer. Automated teller machines (ATMs) are available in all locations. As of June 31, 2017, the bank's loan portfolio totaled \$241 million. FNB's business strategy is to offer a full range of banking services to the communities it serves to help them grow and thrive.

LOAN CATEGORY	\$(000)	%
Real Estate Loans	\$161,252	69.30%
Commercial Loans	\$35,054	15.06%
Individual Loans	\$20,223	8.69%
Agricultural Loans	\$15,290	6.57%
Other Loans	\$878	0.38%
Total	\$232,697	100.00%

Description of Assessment Areas

FNB has two AAs. The two AAs include the Upshur County MSA AA and the Non-MSA AA.

UPSHUR COUNTY ASSESSMENT AREA:

The Upshur County AA is located in the Longview Metropolitan Statistical Area (MSA). It is comprised of the entire county of Upshur. Included in the AA are the communities of Gilmer, Bettie, Big Sandy, Ore City, and Gladewater. There are seven census tracts within Upshur County. There are no low- or moderate-income census tracts, six middle-income tracts and one upper-income tract. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. The table below summarizes the AA's demographic information:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF UPSHUR COUNTY ASSESSMENT AREA	
<i>Population</i>	
Number of Families	10,670
Number of Households	14,668
<i>Geographies</i>	
Number of Census Tracts	7
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	0.00%
% Middle-Income Census Tracts	85.71%
% Upper-Income Census Tracts	14.29%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$53,820
2016 HUD-Adjusted MFI	\$55,700
<i>Economic Indicators</i>	
Unemployment Rate	4.00%
2010 Median Housing Value	\$87,044
% of Households Below Poverty Level	13.31%

Source: 2010 Census Data

The population of Upshur County is 39,309. The distribution of families by income level consists of the following: 20.54 percent are low-income, 18.90 percent are moderate-income, 21.69 percent are middle-income, and 38.87 percent are upper-income. The bank faces considerable competition from other local banks and branches of financial institutions within the AA. Primary employers for the AA include the Gilmer Independent School District, Upshur County and Strategic Fulfillment Group, Clotilde, Big Sandy Independent School, and Nexion Health at Truman Inc.; however, the local Industrial Foundation noted that Upshur County is primarily a commuter county with most residents commuting to nearby areas for employment.

Primary credit needs are for residential and consumer loans within the AA. Local economic conditions are stable. Updated 2017 information from the U.S. Bureau of Labor Statistics revealed that the unemployment rate for the AA has moderated to 4.0 percent. The smaller businesses in the area are mostly service oriented and have had no significant impact from the slow recovery of the national economy. A community contact in the AA did not note any specific credit needs that are not being met and stated that financial institutions in the AA are engaged in and support the needs of the community.

Non-MSA ASSESSMENT AREA

The Non-MSA AA consists of Franklin, Camp, Rains, and Wood counties in their entirety. Included in the AA are the communities of Pittsburg, Leesburg, Mount Vernon, Quitman, Emory, Hawkins, Mineola, Alba and Winnsboro. There are eighteen census tracts within the AA. The census tracts consist of one moderate-income, fifteen middle-income, and two upper-income tracts. The table below summarizes the AA's demographic information:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF FRANKLIN, CAMP, RAINS & WOOD COUNTY ASSESSMENT AREA	
<i>Population</i>	
Number of Families	20,713
Number of Households	28,417
<i>Geographies</i>	
Number of Census Tracts	18
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	5.56%
% Middle-Income Census Tracts	83.33%
% Upper-Income Census Tracts	11.11%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$49,880
2016 HUD-Adjusted MFI	\$52,400
<i>Economic Indicators</i>	
Unemployment Rate	4.39%
2010 Median Housing Value	\$95,374
% of Households Below Poverty Level	14.74%

Source: 2010 Census Data

The combined population of the AA totals 75,884. The distribution of families by income level regardless of census tract location consists of the following: 18.06 percent are low-income, 18.94 percent are moderate-income, 20.91 percent are middle-income, and 42.08 percent are upper-income. The bank faces considerable competition from other local financial institutions within the AA. Primary employers for the AA include Pilgrim's Pride, Lowe's Distribution Center, Nestle Woods, and the education and medical fields for the different counties. Contact with a local government office revealed that primary credit needs for the area is business loans. Local economic conditions are stable. Updated 2017 information from the US Bureau of Labor Statistics revealed that unemployment rates have moderated to 4.39 percent.

Conclusions with Respect to Performance Tests

LENDING TEST

The bank's overall lending performance is satisfactory. The bank's loan-to-deposit ratio is more than reasonable and a majority of the bank's loans are within the AA. Additionally, the geographic distribution represents reasonable dispersion and the distribution of loans by income level represents a reasonable penetration among borrowers of different income levels.

Loan-to-Deposit Ratio

The loan-to-deposit ratio of FNB is more than reasonable given the institution's size, financial condition, and AA credit needs. The bank's quarterly average loan-to-deposit ratio was 76.57 percent since the prior CRA examination in August 2014. The average quarterly loan-to-deposit ratio of all banks for the same time-frame was 62.50 percent.

Institution	Assets (000s) (As of 3/31/17)	Average LTD Ratio
First National Bank of Gilmer	\$328,987	76.57%
Gilmer National Bank	\$221,473	65.01%
The First National Bank of Mount Vernon	\$207,482	40.65%
First National Bank of Winnsboro	\$139,241	77.60%
Pilgrim Bank	\$582,746	66.75%

Lending in Assessment Area

A majority of the bank's lending activity is located inside the AA. A breakdown by loan category is illustrated in the following table:

Lending in FNB's AAs										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	154	63.90	87	36.10	241	17,831	54.61	14,821	45.39	32,652
Home Improvement	12	85.71	2	14.29	14	1,025	79.40	266	20.60	1291
Refinance	46	74.19	16	25.81	62	5,975	69.28	2,650	30.72	8,625
Consumer	32	80.00	8	40.00	40	388	75.93	123	24.07	511
Commercial	26	65.00	14	35.00	40	4,202	86.80	639	14.20	4,841
Totals	270	68.01	127	31.99	397	29,421	61.40	18,499	38.60	47,920

Source: HMDA, loan sample

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

FNBs overall distribution of loans by income level of the borrower represents a reasonable penetration among borrowers of different income levels and businesses of different sizes.

Upshur County Assessment Area

The distribution of loans to borrowers of different incomes and businesses of different sizes is reasonable throughout the AA. The distribution of residential real estate loans to low- and moderate-income borrowers is below the demographic; however, opportunities to originate loans to lower-income families is limited. The percentage of households living below the poverty level is over 13 percent. Additionally, the average median housing cost is over \$87 thousand making it difficult for a lower-income family to qualify for a home mortgage and providing fewer opportunities to lend to low- and moderate-income borrowers. Finally, vacant housing units only represent 10.53 percent of all units and rental units represent 20.57 percent of all units.

Borrower Distribution of Residential Real Estate Loans in the Upshur 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 Families	% of Number of Loans	% of AA Families	% of Number of Loans
Purchase	20.54	8.16	18.90	13.27	21.69	22.45	38.87	52.04
Improvement	20.54	14.29	18.90	0.00	21.69	14.29	38.87	71.43
Refinance	20.54	7.14	18.90	3.57	21.69	17.86	38.87	67.86

Source: HMDA; 2010 U.S. Census data.

The bank’s borrower distribution of consumer loans is excellent. Consumer loans to low- and moderate-income borrowers exceeds the demographic and represents excellent penetration.

Borrower Distribution of Consumer Loans in the Upshur County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer Loans	23.89	25.00	15.15	35.00	19.19	30.00	41.77	10.00

Source: 2010 U.S. Census data.

The bank’s distribution of loans to small businesses is reasonable. The percentage of loans to businesses with reported revenues of \$1 million or less is 65 percent compared to 88 percent of AA businesses.

Borrower Distribution of Loans to Businesses in the Upshur County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	87.94	3.27	8.78	100%
% of Bank Loans in AA by #	65.00	35.00	0	100%
% of Bank Loans in AA by \$	32.07	67.93	0	100%

Source: 2010 US Census; Dun and Bradstreet data, loan sample

Non-MSA Assessment Area

The distribution of loans to borrowers of different incomes and businesses of different sizes is reasonable throughout the AA based on demographics. The distribution of loans to moderate-income borrowers is above or near the demographic data. The distribution of residential real estate loans to low-income borrowers is below the demographic; however, opportunities to originate loans to lower-income families is limited. The percentage of households living below the poverty level is almost 15 percent. Additionally, the average median housing cost is over \$95 thousand making it difficult for a lower-income family to qualify for a home mortgage.

Borrower Distribution of Residential Real Estate Loans in the Non-MSA AA								
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
Purchase	18.06	9.76	18.94	19.51	20.91	14.63	42.08	53.66
Improvement	18.06	0.00	18.94	16.67	20.91	16.67	42.08	66.67
Refinance	18.06	16.67	18.94	16.67	20.91	6.67	42.08	60.00

Source: HMDA; 2010 U.S. Census data.

The bank’s distribution of consumer loans is excellent. The percentage of loans to low-income borrowers significantly exceeds the demographic and the percentage of loans to moderate-income borrowers is near the demographic.

Borrower Distribution of Consumer Loans in the Non-MSA AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer Loans	20.32	40.00	17.29	15.00	18.39	15.00	44.00	25.00

Source: 2010 U.S. Census data.

The distribution of loans to small businesses is excellent. The percentage of loans to businesses with reported revenues of \$1 million or less is 75 percent compared to 87 percent of the AA businesses.

Borrower Distribution of Loans to Businesses in e Non-MSA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	86.90	3.59	9.51	100%
% of Bank Loans in AA by #	75.00	25.00	0.00	100%
% of Bank Loans in AA by \$	65.06	34.94	0.00	100%

Source: 2010 US Census; Dun and Bradstreet data.

Geographic Distribution of Loans

FNBs overall geographic distribution of loans represents excellent dispersion given the overall demographics of the bank's AA.

Upshur County AA

Upshur County consists of only middle- and upper-income census tracts; therefore a geographic distribution analysis of the AA would not be meaningful.

Non-MSA Assessment Area

The geographic distribution of residential real estate loans represents reasonable dispersion throughout the AA. There were no home improvement loans or refinance loans made in the moderate-income census tract, however the bank only has one moderate-income census tract in the AA. The number of home purchase loans in the moderate-income census tracts significantly exceeded the demographic.

Geographic Distribution of Residential Real Estate Loans in the Non-MSA AA								
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
Purchase	0.00	0.00	4.27	14.29	87.04	75.00	8.69	10.71
Improvement	0.00	0.00	4.27	0.00	87.04	80.00	8.69	20.00
Refinance	0.00	0.00	4.27	0.00	87.04	88.89	8.69	11.11

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

The geographic distribution of consumer loans is excellent. The number of loans made in moderate-income census tracts exceeds the demographic.

Geographic Distribution of Consumer Loans in the Non-MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer Loans	0.00	0.00	6.32	10.00	85.45	90.00	8.23	0.00

Source: 2010 U.S. Census data.

The geographic distribution of business loans is excellent. The number of loans made in moderate-income census tracts exceeds the demographic.

Geographic Distribution of Loans to Businesses in the Non-MSA AA								
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
	0.00	0.00	7.90	10.00	85.89	90.00	6.21	0.00

Source: 2010 US Census; Dunn and Bradstreet data.

Responses to Complaints

FNB did not receive any CRA-related complaints during the evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank's performance under the community development test represents adequate responsiveness. The level of community development opportunities is limited within the bank's AA. There are no low-income census tracts and only one moderate-income census tract within the AA, which significantly reduces the opportunities for activities to meet the qualifications of community development for CRA purposes.

Number and Amount of Community Development Loans

The bank had adequate responsiveness under the CD loan test.

Upshur County AA

The bank shows adequate responsiveness in the AA. The bank originated nine loans in the Upshur AA totaling \$832,035. These were two community services loan totaling \$550,200 and seven economic development loans totaling \$281,835.

Non-MSA AA

The bank shows very poor responsiveness in the AA. There were no loans made in the AA.

Regional Impact

The bank financed a \$169,000 loan outside of their AA which helped provide affordable housing to eight tenants in a moderate-income census tract.

Number and Amount of Qualified Investments

The bank had adequate responsiveness under the CD investment test

Upshur County AA

The bank purchased a qualifying school bond in the Upshur County AA totaling \$115,000. A majority of the children attending the schools receive a nutrition supplement. Additionally, FNB made donations to 10 organizations totaling \$25,563 for community services.

Non-MSA AA

The bank purchased a general purpose bond to improve water, drainage, and roads for a moderate-income tract in the Non-MSA AA totaling \$720,000. Additionally, FNB made donations to 13 organizations totaling \$17,758 for community services.

Extent to Which the Bank Provides Community Development Services

The bank provides an adequate level of community development services throughout its AA. The bank operates nine full service branches, as well as a deposit location with ATMs located at each location. One location is located in a distressed middle-income census tract. During the review period, six officers and employees of FNB provided services to six organizations in the bank's AAs. Bank officers and employees served as board members, provided financial expertise, and performed as financial literacy instructors to low-and moderate-income individuals.

Upshur County AA

In the Upshur County AA, four bank officers and employees provided services to four organizations for community services. Notable services included providing financial expertise as a board member at an organization that provides services to low- and moderate-income individuals as well as educating students about finances and community banking at schools where the majority of students receive a nutrition supplement.

Non-MSA AA

In the Non-MSA AA, two officers provided services to two organizations. These services included providing financial expertise as a board member and performing as a financial literacy instructor to low- and moderate-income individuals.

Responsiveness to Community Development Needs

The bank demonstrated adequate responsiveness to community development needs in its AAs. The bank offers products and services which meet the needs of individuals in the communities they serve, regardless of income level. Additionally, contacts stated that the bank is always willing to help whenever there is a need in the community.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this bank has engaged in discriminatory or other illegal credit practices.