



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

## **PUBLIC DISCLOSURE**

December 19, 2011

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The Granger National Bank

Charter Number: 11642

200 West Davilla  
Granger, TX 76530

Office of the Comptroller of the Currency  
Southern District  
San Antonio – North Field Office  
10001 Reunion Place, Suite 250  
San Antonio, TX 78216

**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 the 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 Granger National Bank's (GNB) lending performance meets the standards for satisfactory performance in meeting the known credit needs of its community.

- The bank's quarterly loan-to-deposit (LTD) ratio of 24% is less than reasonable compared to similarly situated banks.
- A substantial majority of loans are within the bank's assessment area (AA). Approximately 86% of the number and 92% of the dollar volume of loans were to borrowers within the AA.
- The bank has demonstrated strong performance in its willingness to extend loans to individuals of varying incomes and farms of different sizes.
- The geographic distribution of residential and small business loans reflects excellent dispersion throughout the AA.

The following pages further describe GNB's CRA performance.

## DESCRIPTION OF INSTITUTION

The bank is a \$29 million bank headquartered in Granger, Texas, approximately 50 miles northeast of Austin, Texas. The institution is wholly owned by Granger National Bancshares, Inc., a one-bank holding company located in Granger, Texas. It has no branches or automated teller machines (ATM), and does not currently provide Internet banking. The one drive-in facility is attached to the bank's main office.

The primary focus is to promote economic development in GNB's AA through its lending programs and community involvement. Its market niche is agricultural, consumer, and small business loans. Due to the AA demographics, competition from outside the area, and a low level of real estate loan demand, GNB originates a limited number of residential loan products. The bank participates in government-guaranteed loan programs through the Farm Service Agency. Total loans as of September 30, 2011, are \$5.8 million and represent 20% of total assets. The following Table 1 details the composition of GNB's loan portfolio as of September 30, 2011.

TABLE 1		
LOAN PORTFOLIO COMPOSITION		
Loan Category	\$ (000s)	%
Real Estate (RE) Nonfarm Nonresidential	1,568	27
RE Residential (1-4)	1,213	21
Agricultural Production	1,044	18
Consumer	754	13
RE Farmland	732	12
Commercial & Industrial (C&I)	212	4
Construction & Land Development (C&D)	172	3
Multifamily Residential	130	2
<b>Total</b>	<b>\$5825</b>	<b>100%</b>

Source: Institution Consolidated Report of Condition

Complete banking services are provided Monday through Friday at the main office and drive-in facility. The bank faces direct competition from one state chartered bank, with a branch in Granger and multiple state and national chartered banks, savings and loans, and credit unions in Taylor, Texas. Based on its financial condition, the local economy, product offerings, competition, and prior performance, GNB has the ability to meet the various credit needs in its community. At the last CRA examination in December 2007, GNB’s CRA rating was “Satisfactory.” No legal impediments or other factors hinder the bank’s ability to provide credit in its AA.

## DESCRIPTION OF ASSESSMENT AREA

Seven contiguous census tracts are designated as GNB’s AA that are located in eastern Williamson County. These tracts are part of the Austin-Round Rock metropolitan statistical area (MSA). The AA includes the city of Taylor and smaller communities/cities such as Granger, Thrall, and Bartlett, which surround and include the one banking office. The AA meets the requirements of the regulation and does not arbitrarily exclude low- to moderate-income (LMI) geographies. Based on the 2000 US Census data, this portion of Williamson County has a population of 21,827, of which 12% of the households live below the poverty level. The AA includes three moderate-income tracts and four middle-income tracts. There are no low- or upper-income tracts located in the AA. The following Table 2 further describes GNB’s AA.

TABLE 2	
DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<b>Population</b>	
Number of Families	5,493
Number of Households	7,425
<b>Geographies</b>	
Number of Census Tracts	7
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	43%
% Middle-Income Census Tracts	57%
% Upper-Income Census Tracts	0%
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	\$47,571
2011 HUD-Adjusted MFI	\$74,900
<b>Economic Indicators</b>	
Unemployment Rate	1.83%
2000 Median Housing Value	\$73,741
% of Households Below Poverty Level	11.82%

Source: US Census Data

While GNB’s AA is located in the Austin-Round Rock MSA, it is exempt from the Home Mortgage Disclosure Act (HMDA) and the Federal Reserve Board’s Regulation C requirements. The bank has total assets of \$29 million and is therefore, is subject to the asset-size exemption, which exempts institutions with an asset threshold less than \$40 million from collecting, reporting, or disclosing data about applications for, and originations and purchases of, home purchase loans, home improvement loans, and refinancings.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The level of lending performance in meeting the credit needs of GNB's AA meets the standards for satisfactory performance. We evaluated the institution using five criteria established for small banks. The criteria includes individual assessments of the average level of total loans as a fraction of total deposits, the level of loans originated within the AA, the reasonableness of loan dispersion to individuals and farms of different revenue levels and geographies, and management's response to complaints received. Additionally, we review any evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

### Sampling/Comparison Information

To determine GNB's performance in lending to borrowers of differing incomes, sizes, and geographies, we sampled consumer and agricultural loans originated within the AA. All agricultural loans originated since 2009 were sampled as the loans represent one of the three primary loan products based on dollar volume. For the purposes of this evaluation, we did not sample commercial or residential real estate loans. Commercial loans represent 27% of the loan portfolio while residential real estate comprises 21% of GNB's loan portfolio. However, only a total of 18 commercial loans and 12 residential real estate loans originated since 2009 in the Williamson County AA; therefore, neither loan product met the minimum sampling requirements as per CRA examination guidelines. While the dollar amount of total consumer loans ranks fourth based on the total dollar amount of the loan portfolio, consumer loans represent GNB's primary loan product based on the volume of loans originated. Therefore, consumer loans are more appropriate for statistical comparison with area demographics than commercial or residential real estate loans. The bank originated all loans in our samples since the previous CRA examination. In evaluating LTD ratio, we compared GNB to three banks in Williamson County and one bank in Burnet County, using historical balance sheet information. To determine the lending performance inside and outside the AA, we reviewed internal reporting information of all loan originations since January 2009.

### Loan-to-Deposit Ratio

The LTD ratio has averaged 24% during the 16 quarters since our last examination. While GNB is located in an isolated area, this LTD ratio is less than reasonable. The LTD ratio has been historically low as deposits have grown relative to the loan portfolio. To assess GNB's performance, we compared it with four other similarly situated banks. LTD ratios for these banks ranged from 24% to 64%; the average being 37%. The bank with the highest LTD ratio, First State Bank Central Texas, has a branch in Granger but is not comparable as it has assets of \$1.1 billion and is headquartered in Austin, Texas, with numerous branches throughout the central Texas region. Farmers State Bank has one location in Bertram, a town with a population of 1,122 as of the 2000 US Census, compared to Granger's population of 1,299. Farmers State Bank in Bertram is most similar in size and community profile, but is not located in the same AA as GNB. City National Bank of Taylor and First Texas Bank in Georgetown are located in the same AA as GNB and have LTD ratios of 35%. The bank's LTD ratio needs improvement. Please see Table 3 below for further details.

TABLE 3		
QUARTERLY AVERAGE LOAN-TO-DEPOSIT RATIOS		
Institution	Assets As of 9/30/11	Average LTD Ratio %
Farmers State Bank - Bertram	\$36,321	28%
City National Bank - Taylor	\$188,898	35%
First Texas Bank - Georgetown	\$310,147	35%
First State Bank Central Texas - Granger	\$1,100,305	64%
<b>Granger National Bank</b>	<b>\$29,186</b>	<b>24%</b>

Source: Institution Consolidated Reports of Condition

### Lending in Assessment Area

A substantial majority of the number and dollar amount of GNB's loans are within its AA. To assess its performance in this criterion, we reviewed internal reporting information for all loans originated since the prior evaluation. As a percentage of the total number of originations, 86% of GNB's loans are within the AA. As a dollar amount, the percentage of total loans originated within the AA is 91%. We found loans originated outside the AA to be generally located within Williamson County. The following Table 4 illustrates the results of our analysis.

TABLE 4										
LENDING IN WILLIAMSON COUNTY ASSESSMENT AREA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural (Farm)	45	86.54	7	13.46		2,797,224	90.84	282,231	9.16	
Consumer	20	83.33	4	16.67		111,295	93.43	7,832	6.57	
Total Reviewed	65	85.53	11	14.47	76	2,908,519	90.93	290,063	9.07	3,198,582

Source: Loan Sample

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

The level of lending to small businesses and farms is excellent. According to US Census data, 99% of AA farms have revenues of less than \$1 million. Of sampled agricultural loans GNB originated in the AA, 100% had revenues below \$1 million. Table 5A below offers more detail.

TABLE 5A				
BORROWER DISTRIBUTION OF LOANS TO FARMS IN WILLIAMSON COUNTY ASSESSMENT AREA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98.90	1.10	0	100%
% of Bank Loans in AA by #	100	0	0	100%
% of Bank Loans in AA by \$	100	0	0	100%

Source: Loan Sample; Dun and Bradstreet Data

The level of performance in lending to consumers of differing income levels significantly exceeds the ratio of AA households at each income level. Demographic information indicates 31% of AA households are low-income, while 19% are moderate-income. The bank originated 46% of sampled consumer loans to low-income borrowers and 33% to moderate-income borrowers. Please see Table 5B below for further details.

TABLE 5B								
BORROWER DISTRIBUTION OF CONSUMER LOANS IN WILLIAMSON COUNTY ASSESSMENT AREA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	30.49	45.83	19.06	33.33	20.28	12.50	30.17	8.33

Source: Loan Sample; US Census Data

### Geographic Distribution of Loans

Geographic distribution of loans to LMI areas within GNB’s AA exceeds the standards for satisfactory performance and reflects excellent dispersion. As there are no low-income census tracts in the AA, this analysis is limited to GNB’s performance in lending to moderate-income areas.

The level of lending to farms in moderate-income census tracts exceeds the ratio of AA farms located in moderate-income census tracts. Demographic information indicates 37% of AA businesses and farms reside within moderate-income census tracts. GNB originated 54% of sampled commercial and farm loans to borrowers residing in moderate-income census tracts. See Table 6A for more detail.

TABLE 6A								
GEOGRAPHIC DISTRIBUTION OF LOANS TO FARMS IN WILLIAMSON COUNTY ASSESSMENT AREA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans
Farms	0.00	0.00	37.02	53.85	62.98	40.38	0.00	5.77

Source: Loan Sample; US Census Data

The bank’s lending to consumers in moderate-income census tracts significantly exceeds the ratio of AA households located in moderate-income census tracts. Demographic information indicates 44% of AA households reside within moderate-income census tracts. The bank originated 54% of sampled consumer loans to borrowers residing in moderate-income census tracts. See Table 6B below for further details.

TABLE 6B								
GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS IN WILLIAMSON COUNTY AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	0.00	0.00	43.81	54.17	56.19	37.50	0.00	8.33

Source: Loan Sample; US Census Data

**Responses to Complaints**

Granger National Bank has not received any complaints or public comments regarding its CRA performance during this evaluation period.

**Fair Lending Review**

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