



INTERMEDIAT`SMALL BANK

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

PUBLIC DISCLOSURE

January 17, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Granbury
Charter Number 3727**

**101 E. Bridge Street
Granbury, TX 76048**

**Comptroller of the Currency
Fort Worth
9003 Airport Freeway Suite 275
North Richland Hills, TX 75201**

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.

- A significant majority of loans, 88% in number and dollar volume, are originated inside the assessment (AA), which reflects an excellent commitment to meeting credit needs.
- The distribution of loans to borrowers of different income reveals a good penetration of loans to individuals of different income levels and businesses of different sizes.
- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. FNB's loan-to-deposit ratio has averaged 41% for 17 quarters since the last CRA examination. The loan-to-deposit ratio was 45% as of September 30, 2005.
- No consumer complaints regarding the bank's CRA performance were received during this evaluation period.
- FNB's qualified investments exhibit adequate responsiveness to the community development needs and opportunities in the AA.
- FNB's community development services reflect adequate responsiveness to the needs and opportunities in the AA.

SCOPE OF EXAMINATION

Conclusions regarding the Lending Test were based on a sample of loans originated between January 1, 2002 and December 31, 2005. The loan products we evaluated include home purchase loans, home improvement loans, home mortgage refinance loans, small loans to businesses, and consumer loans. Each loan product was equally weighted in this evaluation. Our sample included 20 commercial loans (including commercial real estate and commercial and industrial loans), 20 residential real estate mortgage loans and 20 consumer loans originated since January 2002, totaling \$3.6 million.

The scope of this examination also included an evaluation of FNB's community development activities, including loans, investments and services. The evaluation period for the Community Development Test runs from July 24, 2001 through December 31, 2005.

DESCRIPTION OF INSTITUTION

The First National Bank of Granbury (FNB) is an intrastate commercial bank that was chartered in Granbury, Texas in 1887. Granbury is located in Hood County. In addition to its main office at 101 E. Bridge Street, FNB operates six full-service branches in Granbury. There are also seven motor banks and eight automated teller machines (ATMs) throughout the assessment area (AA). FNB opened its Tolar branch in September 2001. The Pecan Plantation branch was established in December 2003. FNB has not closed any branches during this evaluation period.

FNB is a wholly owned subsidiary of First Granbury Bancorporation, a one-bank holding company headquartered in Granbury, Texas. FNB offers customary credit products and depository accounts. FNB has no operating subsidiaries and had no merger or acquisition activity during the 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 reported total assets of \$285 million and total liabilities of \$258 million as of September 30, 2005. Total loans of \$117 million represent 41% of total assets. The following chart details the composition of FNB's loan portfolio as of September 30, 2005.

Loan Portfolio Composition as of September 30, 2005		
Loan Category	\$(000)	%
Commercial & Commercial Real Estate	58,650	50.17
Commercial & Industrial	8,229	7.04
Residential Real Estate	25,424	21.75
Consumer & Other	18,386	15.73
Farms Loans & Agricultural Real Estate	6,210	5.31
Total	\$116,899	100.00

Source: September 30, 2005 Report of Condition

Banking competition is aggressive in Hood County and includes dominant affiliates of large national banking companies, large regional financial institutions, and numerous small community banks.

Recent community contacts revealed that in general, the local financial institutions are meeting the credit needs of the AA. The primary credit needs identified include financing for affordable housing and lending to small businesses in support of economic development.

DESCRIPTION OF HOOD COUNTY ASSESSMENT AREA

FNB has designated Hood County as its AA. Hood County is a rural community that is experiencing tremendous growth. Hood County is located in north central Texas not far from the Dallas/Fort Worth Metroplex. Granbury is the county seat. The bank's designated AA is comprised of 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
2005 HUD-Adjusted MFI	\$42,000
Economic Indicators	
Unemployment Rate	4.84%
2000 Median Housing Value	\$93,730
% 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% are owner-occupied, 16% are renter-occupied and 15% are vacant. Approximately 10% of the families in the AA are considered low-income. Moderate-income families approximate 15% of the population, and middle- and upper-income families comprise 17% and 58% of the population, respectively.

Based on 2005 Dun and Bradstreet business demographic data, there are 3,688 businesses in the AA, of which 68% reported gross annual revenue less than or equal to \$1 million and 3% reported gross annual revenue greater than \$1 million. Because reporting is voluntary, 29% or 1,055 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 metroplex, Lake Granbury, and local attractions, including historic Granbury Square, Granbury Live, 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 City of Granbury, Granbury ISD, Hood County, Lake Granbury Medical Center, and Wal-Mart.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

LENDING TEST

FNB's performance under the Lending Test is satisfactory.

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's LTD ratio averaged 41% over the 17 quarters since the last CRA examination in July 2001. During the evaluation period, the LTD ratio ranged from a low of 36% as of December 31, 2003, to a high of 45% as of September 30, 2005. The bank identified several similarly situated competitors. The quarterly average LTD ratio for each bank is listed below. Please note that these banks are listed alphabetically by city and that no ranking is intended or implied.

Loan-to-Deposit Ratios		
Institution	Total Assets (000's) As of 09/30/05	Average Loan-To-Deposit Ratio
First Financial Bank, N.A. – Abilene	\$876,206	52.38%
State National Bank – Fort Worth	\$1,396,180	69.80%
TexasBank – Fort Worth	\$1,681,844	86.34%
Community Bank - Granbury	\$360,315	72.64%
The First National Bank of Granbury	\$284,920	41.07%
Town and Country Bank – Stephenville	\$114,610	50.35%

Source: Institutions Report of Condition from September 30, 2001 to September 30, 2005

The average LTD ratio of similarly situated banks within the AA during the evaluation period was 66%. Although FNB's LTD ratio is low in comparison, it reflects a willingness to provide credit in light of mitigating factors. First, FNB is the only bank headquartered in Granbury. The other banks in the AA are branches of larger institutions with diverse and varied AA's throughout north and west Texas. Second, FNB sells a significant portion of its real estate mortgage loan portfolio in the secondary loan market. During the period 2002 through 2005, FNB sold \$236 million in loans. This would contribute to a lower LTD ratio.

Lending in Assessment Area

A significant majority of the bank's loans were made within its AA, which reflects an excellent commitment to meeting the credit needs of the AA. For purposes of this evaluation, examiners analyzed a sample of commercial, residential mortgage, and consumer loans originated between January 1, 2002 and December 31, 2005. The commercial loan sample consisted of 20 loans totaling \$2.1 million. The sample of residential mortgage loans consisted of 20 loans totaling \$1.2 million. The sample of consumer loans consisted of 20 loans totaling \$294,000. Our analysis determined that 88% in number and dollar volume of loans in the sample were extended within the bank's AA. The table below reflects the distribution by product type.

Lending in Hood County Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	18	90.0%	2	10.0%	20	1,998	90.0%	102	4.9%	\$2,100
Residential	18	90.0%	2	10.0%	20	1,035	86.5%	162	13.5%	\$1,197
Consumer	17	85.0%	3	15.0%	20	128	43.6%	166	56.4%	\$294
Totals	53	88.3	7	11.7%	60	3,161	88.0%	430	12.0%	\$3,591

Source: Sample of loans used for CRA performance analysis.

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

Overall, performance for lending to borrowers of different incomes and businesses of different sizes is good and meets the standards for satisfactory performance. To perform our analysis, we reviewed income information for 18 commercial loans, 18 residential mortgage loans, and 17 consumer loans originated in the Hood County AA. Each product type was weighted equally in this evaluation.

Commercial Loans

The bank's lending to businesses of different sizes exceeds the standards for satisfactory performance. The sample of business loans reviewed revealed that 78% of the number and 93% of the dollar volume of loans were extended to businesses with gross revenues of less than \$1 million per year. This level is comparable to the assessment area information and reflects an excellent penetration of loans to small businesses. The following chart reflects the results of our review of commercial loans originated in the AA.

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	68.41%	2.98%	28.61%	100%
% of Bank Loans in AA by #	77.78%	0.00%	22.22%	100%
% of Bank Loans in AA by \$	93.21%	0.00%	6.79%	100%

Source: Loan sample; Dun and Bradstreet data.

Residential Mortgage Loans

The distribution of residential mortgage loans by income category of the borrower is good and meets the standard for satisfactory performance. Community contacts identified low- and moderate-income housing for families and senior citizens as a need in the community. FNB demonstrated a good responsiveness to this need. To conduct this analysis we compared the percentage of bank loans to the percentage of families that are classified as low-, moderate-, middle-, and upper-income. Based on 2000 U. S. Census data, 10% of the families are low-income and 15% of the families are moderate-income. Our review determined that the bank made 6% of its residential mortgage loans to low-income families and 22% of its loans to moderate-income families. This level of performance incorporates FNB's loan originations in conjunction with the USDA Rural Development Single Family Housing Loan Guarantee Program. During the evaluation period, FNB originated 54 loans, totaling \$5 million, to low- and moderate-income families in the AA. The following chart reflects the results of our review of residential mortgage loans originated in the AA.

Borrower Distribution of Residential Real Estate Loans in Hood County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Residential Real Estate Loans	10.26%	5.56%	14.67%	22.22%	17.40%	16.67%	57.67%	50.00%

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

Consumer Loans

Consumer lending meets the standard for satisfactory performance. Based on 2000 U.S. Census data, 22% of the households in the AA are low-income; approximately 18% of the bank’s consumer loans were originated to low-income households. Approximately 19% of the households in the AA are classified as moderate-income. Our review determined that the bank made 12% of its consumer loans to moderate-income households. The distribution of consumer loans is near to the income characteristic of the AA. The following chart reflects the results of our selected sample of consumer loans originated in the AA.

Borrower Distribution of Consumer Loans in Hood County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	21.91%	17.65%	19.16%	11.76%	21.37%	17.65%	37.56%	23.53%

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

Geographic Distribution of Loans

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

Responses to Complaints

During this evaluation period, FNB did not receive any consumer complaints that relate to CRA performance.

COMMUNITY DEVELOPMENT TEST

FNB demonstrates adequate responsiveness to the needs of its AA through qualified investments and community development services considering the institution's capacity and the need and availability of such opportunities in Hood County.

Community Development Loans

FNB did not originate any community development loans in this evaluation period.

Qualified Investments

A single donation to the Texas Mezzanine Fund (TMF) accounts for 66% of the bank's total qualified investments. FNB's investment totals \$250,000. TMF, established in 1999, is a statewide Community Development Financial Institution that provides financing for businesses located in distressed areas, women- or minority-owned businesses, and small businesses that create jobs for low- and moderate-income people. TMF also provides financing for for-profit and nonprofit developers of single- and multi-family affordable housing for families, senior citizens, and households with special needs. Further, TMF provides loans for neighborhood community facilities. To date, TMF has not financed any projects within the bank's AA.

Other qualified investments (41) totaling \$129,000, include donations and contributions to community development organizations that provide services and activities that impact low- and moderate-income individuals and promote economic development.

Community Development Services

FNB's community development services reflect adequate responsiveness to the needs and opportunities in the AA. Service delivery systems are reasonably accessible to geographies and individuals of different income levels in the AA. Business hours and services are convenient and are accessible to all segments of the AA.

The branch system is the primary delivery system for retail banking services and is supplemented by 8 ATMs, one of which is located in a convenience store. Branch penetration is adequate when compared with the percentage of the population at each income level. Based on 2000 Census data, 29% of the bank's branches and 25% of the ATMs are located in middle-income geographies that contain 32% of the population; 71% of the branches and 75% of the ATMs are located in upper-income geographies where 68% of the population resides. The bank offers other alternative delivery systems that augment the branch system including 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. The Kroger food store branch is open until 7 p.m. Monday through Friday and until 3 p.m. on Saturday. FNB operates a mobile branch that provides teller services to a retirement community twice a week and supports an ongoing children savings program in three local elementary schools. All motor bank locations offer extended evening and weekend hours. These services enhance the accessibility of the branches.

An adequate range of deposit and loan products and business services are available at all FNB branch locations. Products and services are responsive to banking needs within the AA and do not vary in a way that inconveniences any portion of the AA, or any group of individuals, particularly low- or moderate-income individuals. While FNB does not offer any products or services that are solely targeted to low- and moderate-income individuals, the bank does offer a low-cost checking account and does not require a minimum loan amount of applicants applying for credit.

The volume and responsiveness of the bank's community development services is adequate. Qualified services focus on volunteer activities within the community. In advisory capacities, FNB officers and employees serve various community development organizations that benefit low- and moderate-income individuals and families. The organizations include the following:

- Board Member, Hood County Commission on Aging
- Board Member, Lake Granbury Area Economic Development Committee
- Board Member, Mission Granbury
- Board Member, United Way of Hood County

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.