



SMALL BANK

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

PUBLIC DISCLOSURE

June 19, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Graham National Bank
Charter Number 22643**

**455 Elm Street
Graham, Texas 76450**

**Comptroller of the Currency
Fort Worth Field Office
9003 Airport Freeway Suite 275
North Richland Hills, Texas 76180-9127**

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.

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This documentation is an evaluation of the Community Reinvestment Act performance of **Graham National Bank**, Graham, Texas as prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of June 19, 2006. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

Graham National Bank's lending performance reflects satisfactory responsiveness to its community's credit needs. This assessment is based on the following conclusions:

- The bank's average loan-to-deposit ratio of 70% is reasonable given the bank's size, financial condition, local competition, and assessment area credit needs.
- A substantial majority of the bank's loan activity (75% of the number and 64% of the dollar amount of the loans reviewed) is within the bank's assessment area.
- The distribution of loans demonstrates reasonable penetration among individuals of different income levels and businesses of different sizes.
- There have been no CRA complaints filed against the bank.

DESCRIPTION OF INSTITUTION

Graham National Bank (GNB) is a community bank located in Graham, Texas. Graham is located approximately 87 miles northwest of Fort Worth, Texas, and 60 miles south of Wichita Falls, Texas. The bank operates from one location in downtown Graham. The bank has one on-premise Automated Teller Machine (ATM), and one additional off-premise ATM. Both are located in the City of Graham and are operational 24 hours daily.

GNB is a full-service community bank offering a wide variety of loan and deposit products. The bank also offers transactional Internet banking. As of March 31, 2006, GNB has total assets of

\$94 million, loans of \$85 million, and deposits of \$82 million. As reflected in the following table, major lending activities are as follows:

Loan Category	\$ (000)	%
Agricultural Production/Other Agricultural	\$16,571	19%
Farmland Real Estate	\$7,931	9%
Consumer Loans	\$9,178	11%
Commercial Real Estate	\$32,670	38%
Commercial	\$10,674	13%
Residential Real Estate	\$5,121	6%
Other Loans	\$3,167	4%
Total	\$85,312	100%
Percentage of Loans to Total Assets 90.43%		

GNB is a wholly owned subsidiary of Olney Bancshares of Texas, Inc., a multi-bank holding company, headquartered in Olney, Texas. The bank is affiliated through common ownership with the following banks: First National Bank of Borger, Citizens National Bank of Breckenridge, First State Bank of Canadian, N.A., First Coleman National Bank, Friona State Bank, N.A., First National Bank of Olney, Farmers National Bank of Seymour, and First National Bank of Throckmorton. All of these banks are located in the north central to western portions of Texas. GNB is also related to Roserock Bank (an Oklahoma chartered state bank), again through common ownership.

The most recent CRA examination was performed as of October 22, 2001. GNB received a satisfactory rating at that examination. The bank has no impediments, legal or otherwise, which would hinder its efforts to help meet the credit needs of its assessment area (AA). There have been no changes in the bank's corporate structure since the last examination.

DESCRIPTION OF YOUNG COUNTY

GNB defines its AA as Young County, Texas. Young County consists of four block numbering areas (BNA's). All four BNA's are middle-income. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. Derived from 2000 Census Bureau and 2006 Housing and Urban Development Agency (HUD) data, the following table reflects the AA demographics:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	5,118
Number of Households	7,161
Geographies	
Number of Block Numbering Areas (BNA's)	4
% Low-Income BNA's	0
% Moderate-Income BNA's	0
% Middle-Income BNA's	100%
% Upper-Income BNA's	0
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$36,425
2006 HUD-Adjusted MFI	\$42,000
Economic Indicators	
Unemployment Rate	2.39%
Median Housing Value	\$48,196
% of Households Below Poverty Level	15.00%

Area economic conditions are stable. The major employers within the AA are Graham Independent School District, Graham Regional Medical Center, Zack Burkett Industries, and Texas Recreation Corporation. There is strong competition in Young County from three locally owned financial institutions, a branch of a global bank, and to a lesser degree, other financial institutions within Young County.

We considered information from two community contacts. We made contact with the Graham Economic Improvement Corporation and the Graham Education and Workforce Center. Both contacts stated that the bank's participation in efforts to meet the credit needs of low- and moderate-income individuals is good. One of the contacts indicated that affordable housing is a current need in the AA, primarily the City of Graham. This identified need was brought to the attention of bank management.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our conclusions in this evaluation are based on the lending activity from the last examination dated October 22, 2001. Our sample included a total of sixty (60) loans in the 1 – 4 family residence, consumer auto and business areas. We used loan, borrower income, and AA data provided by the bank and tested it for accuracy.

Loan-to-Deposit Ratio

GNB's loan-to-deposit ratio meets the standards for satisfactory performance.

This ratio measures the extent to which the subject bank has returned the deposits it has received to the community in the form of loans. The average of such ratios for each quarter-end since the last CRA examination is used to determine performance in this area. The average for this period totals 69.52%. There are two (2) other financial institutions competing in the area that GNB considers its primary competition (First National Bank of Graham and Graham Savings). There are also two other national banks in the AA, one of which is an affiliate of GNB. The average loan-to-deposit ratios for these institutions, at March 31, 2006, ranged from 47.50% to 93.36%. The combined average ratio for these banks was 71.81%. Based on this, the bank's ratio is reasonable with area competing banks.

Lending in Assessment Area

The bank's lending within the AA meets the standards for satisfactory performance.

This criterion quantifies what proportion of the bank's lending activity is within its AA. An institution that exhausts its resources lending in other areas, to the exclusion and detriment of its own AA, would be considered less than satisfactory. However, GNB's lending efforts are concentrated within its AA.

At this time, GNB does not track loans by location. To assess the bank's performance in this area we were required to sample a portion of the loan portfolio. For our sample product, we chose 1 – 4 family mortgage loans, consumer auto loans and business loans. The following table reflects the results of our review of GNB's lending in the AA:

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential Real Estate	20	100%	\$794	100%	0	0%	\$0	0%
Automobile Loans	11	55%	\$157	52.8%	9	45%	\$141	47.2%
Business Loans	14	70%	\$2,870	58.7%	6	30%	\$2,022	41.3%
Total Reviewed	45	75%	\$3,821	63.8%	15	25%	\$2,163	36.2%

Based on our sample results, a significant majority of loans are within the bank's AA.

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

The bank's loan distribution, to the different family and household income levels as well as businesses of different sizes, meets the standards for satisfactory performance.

The bank obtains and analyzes applicant information during the loan decision process. However, this information is not monitored or used to assess the efforts to meet the standards for this area. To assess the bank's efforts, we used the sample of loans noted above. The results of our analysis, noted in the tables below, indicate the bank is reasonably lending to borrowers of all income levels and businesses of different sizes. Additionally, the bank has no minimum loan amount in policy. Overall, we concluded that the bank's performance is generally proportionate to the income levels of the families and households within the AA and the credit needs of low- and moderate-income individuals. Also, the bank meets the needs of the small businesses.

1-4 Family Real Estate Lending

1-4 FAMILY REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	19.19%		18.84%		22.55%		39.43%	
	% of Number	% of Amount						
	10%	3.9%	15%	12.56%	35%	33%	40%	50.6%

Consumer Lending

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	22.96%		17.78%		18.17%		41.10%	
	% of Number	% of Amount						
	20%	15.7%	35%	27.3%	15%	17.1%	30%	39.9%

Business Lending

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses *Twenty nine percent of assessment area businesses did not report revenue figures	67.71%	3.56%
% of Bank Loans in AA #	85.0%	15.0%
% of Bank Loans in AA \$	92.7%	7.3%

Geographic Distribution of Loans

A geographic distribution analysis of loans was not performed. There are no low- or moderate-income BNA's within Young County.

Responses to Complaints

GNB has not received any complaints pertaining to CRA performance during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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

An analysis of public comments and consumer complaint information was performed according to the OCC's risk-based fair lending approach. Based on our analysis of this information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with this CRA evaluation. The latest comprehensive fair lending examination was performed in September 2002. This examination found the bank to be in compliance with anti-discriminatory laws and regulations.