



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 17, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Granger National Bank
Charter Number 11642**

**200 West Davila
Granger, TX 76530**

**Comptroller of the Currency
ADC-Austin
8310 Capital of Texas Highway North Suite 250
Austin, TX 78731**

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) overall lending performance is satisfactory given its size, financial condition, and known credit needs in its assessment area (AA). GNB's loan-to-deposit (LTD) ratio is below comparable area banks. However, GNB's lending performance in low- to moderate-income (LMI) areas and to LMI borrowers and to small businesses reflects a commitment to the local community.

- The LTD ratio is satisfactory and averaged 31% since our last examination.
- A majority of GNB's loans are originated within its AA.
- GNB has demonstrated a strong willingness to extend loans to individuals of varying incomes and small business of different sizes.
- The geographic distribution of loans is good and exceeds the demographic composition of the AA.
- There have been no complaints with respect to GNB's performance under the Community Reinvestment Act (CRA).

The following pages further describe GNB's CRA performance.

DESCRIPTION OF INSTITUTION

GNB is a \$22 million bank headquartered in Granger, Texas, approximately 50 miles northeast of Austin, Texas. GNB is wholly owned by Granger National Bancshares, Inc., a one-bank holding company (HC) located in Granger, Texas. Total assets of the HC as of June 30, 2003 were \$2.9 million. The bank has no branches or automated teller machines (ATM). The one drive-in facility is attached to the main office.

The institution's primary focus is to promote economic development in its AA through its lending programs and community involvement. GNB's market niche is agriculture, consumer, and small business. 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 programs through the Farm Service Agency. Total loans as of September 30, 2003, are \$5,268 and represent 24% of total assets. The following reflects a detailed breakdown of GNB's loan portfolio as of September 30, 2003.

Loan Category	\$ (000)	%
Construction Loans	322	6
RE Farmland	590	11
RE Residential (1-4)	909	17
RE Nonfarm Nonresidential	1,191	23
Agricultural Production	948	18
Commercial and Industrial	649	12
Consumer	650	12
Other	9	0.2
Total	5,268	100%

Complete banking services are provided Monday through Friday at the main office and drive-in facility. GNB faces competition from area banks, savings and loans, and credit unions. 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. As the last CRA examination in June 1999, the bank'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

GNB has designated as its AA seven census tracts that are located in eastern Williamson County. These tracts are part of the Austin-San Marcos metropolitan statistical area (MSA). This AA includes the city of Taylor and smaller communities/cities such as Granger, Thrall, and Bartlett, which surround and include the one banking office. This area meets the requirements of the regulation and does not arbitrarily exclude LMI geographies. Based on the 1990 census U.S. Census data, this portion of Williamson County has a population of 18,000 of which 20% of the households live below the poverty level. The AA includes one low-income tract, two moderate-income tracts, three middle-income tracts, and one is an upper-income tract. The following table further describes the bank's AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	4,763
Number of Households	6,479
<i>Geographies</i>	
Number of Census Tracts/Block Numbering Area (BNA)	7
% Low-Income Census Tracts/BNA	14.3%
% Moderate-Income Census Tracts/BNA	28.6%
% Middle-Income Census Tracts/BNA	42.8%
% Upper-Income Census Tracts/BNA	14.3%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$28,600
2002 HUD-Adjusted MFI	\$71,100
<i>Economic Indicators</i>	
Unemployment Rate	3%
1990 Median Housing Value	\$41,760
% of Households Below Poverty Level	20%

In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted one community leader and local businessman during this examination. This contact mentioned that GNB is active in the community and responsive to credit and service needs in the Granger area. The individual also stated that he was not aware of any unmet credit or servicing needs in the Granger community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

GNB's LTD ratio is satisfactory, given its asset size, financial condition, and known lending opportunities in the AA. To understand the bank's performance, we conducted an LTD analysis on four other similarly situated banks. LTD ratios for these banks ranged from 32% to 64%, and the average LTD was 47%. GNB's LTD ratio has averaged 31% during the 18 quarters since our last examination. Given that GNB is located in an isolated rural area where lending opportunities are limited, this LTD meets the standard for satisfactory performance.

Institution	Assets As of 09/30/2003	Average LTD Ratio %
Buckholts State Bank	42,082	46.1%
Citizen's National Bank - Cameron	218,078	32.5%
Eagle Bank - Jarrell	15,761	44.1%
First State Bank - Granger	69,022	63.8%
Granger National Bank	22,093	30.9%

Lending in Assessment Area

A majority of the number and dollar amount of GNB's loans are within its AA. To assess the bank's performance in this criteria, we reviewed a sample of 19 residential real estate loans and 22 business loans originated during the evaluation period to evaluate lending patterns within the AA. The following table illustrates the results of our analysis.

TOTAL LOANS REVIEWED								
LOAN TYPE	In Assessment Area				Out Of Assessment Area			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Total Reviewed	23	56.1	610	54.8	18	43.9	503	45.2

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

The loan portfolio reflects an excellent distribution of residential real estate loans to LMI families and a satisfactory distribution of loans to small businesses. In order to assess GNB's performance in this criteria, we obtained income information from our sample of 13 residential real estate loans in the AA originated since the prior CRA examination. We also obtained gross revenue information from our sample of 10 business loans in the AA originated during the same period. Our analysis indicates that GNB lends to loan

applicants regardless of income category. As indicated by the chart below, GNB’s residential real estate lending exceeds the demographics of the AA, while business lending is comparable to the demographics. This overall level of performance exceeds the standards for satisfactory performance in this criteria.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	30.7%		18.9%		23.5%		26.8%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	53.8%	56.2%	46.2%	43.8%	0.0%	0.0%	0.0%	0.0%

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	94.1%	5.9%
% of Bank Loans in AA #	90.0%	10.0%
% of Bank Loans in AA \$	79.0%	21.0%

Geographic Distribution of Loans

The geographic distribution of loans reflects an excellent dispersion of loans throughout GNB’s AA when compared to area demographic characteristics. We based our analysis on the bank’s 13 residential real estate and 10 business loans originated in the AA during the evaluation period. While there were no loans originated in the bank’s one low-income tract, lending performance clearly exceeds the demographics for moderate-income tracts. The one low-income tract comprises south Taylor, an area where GNB does not have a physical presence. There is significant competition from long established local financial institutions in Taylor. We found no evidence that GNB is arbitrarily denying loan products to this low-income tract.

RESIDENTIAL REAL ESTATE								
CT Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	13.1%		31.4%		44.3%		11.2%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	0.0%	0.0%	92.3%	90.9%	7.7%	9.1%	0.0%	0.0%

SMALL BUSINESS LOANS								
CT Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	8.3%		40.4%		46.4%		4.9%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	0.0%	0.0%	90.0%	91.9%	10.0%	8.1%	0.0%	0.0%

Responses to Complaints

No CRA-related or unresolved consumer complaints have been identified since our prior examination.

Fair Lending Review

Our review disclosed no evidence of fair lending concerns.