



PUBLIC DISCLOSURE

July 11, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Granger National Bank
Charter Number 11642

200 W. Davilla
Granger, TX 76530

Office of the Comptroller of the Currency
San Antonio North Field Office
10001 Reunion Place
Suite 250
San Antonio, TX 78216-4165

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.

Granger National Bank's (GNB) lending performance reflects a satisfactory response to meeting community credit needs in its assessment area (AA). Major factors that support the rating include:

- GNB originated a substantial majority of loans inside the AA.
- The geographic distribution of residential and small farm loans reflects excellent dispersion throughout the AA.
- Lending activities reflect excellent penetration to borrowers of different incomes.
- Lending activities reflect excellent penetration to farms of different sizes.
- The average quarterly loan-to deposit (LTD) ratio remains low and less than reasonable when compared to similarly situated banks.

SCOPE OF EXAMINATION

We evaluated GNB's lending performance using Small Bank evaluation procedures. The examination scope covered the period from January 1, 2012, to July 11, 2016. We analyzed loan originations during this evaluation period and identified agricultural/farm loans, and loans secured by 1-4 family homes as primary products. We selected a sample of loans for each primary product and used these samples to calculate lending inside the AA and borrower and geographic distribution.

Loans secured by 1-4 family homes were considered a primary product even though only 18 loans originated since the last CRA examination. Although the number of consumer loans made during the same period was significantly higher, the total dollar amount is low and not representative of a primary product. Also, GNB does not always gather detailed financial information for borrowers with very small dollar consumer loans making it difficult to accurately analyze and determine borrower distribution. Loans secured by 1-4 family homes reflects GNB's current lending patterns and standards.

DESCRIPTION OF INSTITUTION

GNB is an intrastate rural community bank headquartered in Granger, Texas, approximately 50 miles northeast of Austin. The bank is wholly owned by Granger National Bancshares Inc., a one-bank holding company also located in Granger Texas. The bank has no branches and no automated teller machines (ATM). There is one drive-through facility which is part of the main office. GNB started offering basic Internet banking since the last CRA examination. Internet banking provides customers access to their accounts 24 hours a day, and also provides Bill Pay through an outside vendor.

GNB offers non-complex traditional banking products such as farm, real estate (retail, commercial, and farm), and consumer loans, as well as various types of deposit products. Loan demand has been low due to the demographics and level of competition in the AA. GNB participates in a government-guaranteed loan program through the Farm Service Agency.

As of March 31, 2016, GNB had total assets of \$32.6 million and total loans of \$6.7 million. The loan portfolio represents 20% of the bank’s total assets. The following table details the composition of GNB’s loan portfolio as of March 31, 2016.

LOAN PORTFOLIO COMPOSITION		
Loan Category	\$ (000s)	%
Agricultural/Farm	2,793	42%
RE Residential 1-4 Family	1,746	26%
Commercial (including real estate)	1,265	19%
Consumer	851	13%
Other Loans	27	0%
Total	\$6,682	100%

Source: March 31, 2016 Call Report; Other Loans represent 0.4%

The main bank provides banking services Monday through Friday with the drive-through providing extended hours. GNB faces direct competition from a branch of a state chartered bank located in Granger. There are also multiple financial institutions located in the town of Taylor, Texas, 11 miles south of the bank. Due to its location, and strong competition, the bank’s ability to generate loan growth is hindered. Nevertheless, GNB is able to meet the lending needs in its AA. GNB’s primary strategy is to continue meeting the banking needs of the local community. The prior CRA examination, dated December 19, 2011, assigned an overall “Satisfactory” rating to GNB’s lending performance.

DESCRIPTION OF ASSESSMENT AREA(S)

GNB designated one AA, comprised of seven census tracts in Williamson County, which is part of the Austin-Round Rock metropolitan statistical area (MSA). Four of the seven census tracts are designated moderate-income, and three are middle-income tracts. There are no low- or upper-income tracts in the AA. GNB did not arbitrarily exclude any tracts from the AA.

Although GNB is located in an MSA, it is exempt from HMDA reporting, as its asset size of \$32.6 million is less than the Consumer Financial Protection Bureau (CFPB) imposed threshold of \$43 million for 2017 and \$44 million for 2015 and 2016. The largest urban area in the AA is the City of Taylor with a population of 15,191 (2010 Census). In comparison, Granger has a population of 1,419. The Granger community is largely comprised of small businesses and small farms, 99% of farms and 78% of businesses in the AA generate less than \$1 million in annual revenues. The largest employment areas are located in Taylor and in the Austin-Round Rock-Georgetown areas. The AA does not have any notable large employers.

DEMOGRAPHIC INFORMATION FOR ASSESSMENT AREA					
	#	% Low	%Moderate	%Middle	%Upper
Geographies (Census Tracts)	7	0	4	3	0
Population by Geography	24,039	0	57	43	0
Owner Occupied Homes by Geography	6,271	0	47	53	0
Businesses by Geography (Non-Farm)	1,296	0	61	39	0
Farms by Geography	163	0	45	55	0
Family Distribution by Income Level	6,050	27	25	26	22
Household Distribution by Income Level	8,414	30	20	22	28
Census Median Family Income	\$71,602	Median Housing Value		\$100,561	
HUD – Adjusted MFI: 2015	\$76,800	Households Below the Poverty Level		14.93%	
HUD – Adjusted MFI: 2014	\$75,400	Unemployment Rate		6.83%	
HUD – Adjusted MFI: 2013	\$73,200				
HUD - Adjusted MFI:2012	\$75,900				

Source: 2010 US Census, 2012 – 2015 FFIEC Updated MFI, and Bureau of Labor Statistics

During a CRA evaluation, it is customary for examiners to contact persons and/or organizations within the bank's AA to gain insight on local economic conditions and credit needs. For this evaluation, we met with a local community member and discussed community needs and how financial institutions in the area meet those needs. The contact stated the local economy is in recovery mode since the financial crisis. Recovery has been very slow and unemployment continues to be a problem. The contact confirmed the lack of opportunities for local financial institutions. The contact had not heard anything negative about the bank, but noted it could create awareness by increasing advertisement, and becoming more involved in community events. Nevertheless, the contact believed GNB is meeting the community needs by offering farm and consumer loans, as well as the deposit products needed by the residents.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The level of lending performance meets the standards for satisfactory performance. We evaluated GNB's lending performance by assessing the average level of total loans as a percentage of total deposits, the percentage of loans originated within the AA, the reasonableness of loan distribution to borrowers of different incomes and farms of different sizes, and the reasonableness of geographic distribution.

Loan-to-Deposit Ratio

GNB's average quarterly LTD ratio for the 17 quarters since the last CRA examination is 23% and is less than reasonable. To determine the reasonableness of the ratio we compared it to nine institutions. These institutions were banks with total assets less than \$200 million located in and out of the AA. Most institutions were similarly situated rural banks. The LTD ratios for the other institutions ranged from 19% to 79% and averaged

43%, significantly higher than GNB’s average of 23%. Although GNB’s quarterly average is slightly lower than the 24% reported at the last CRA examination, the ratio at March 31, 2016 is 24%, which is higher than the 21% reported at December 31, 2011. During the evaluation period, the bank’s assets grew almost 12% (\$3.4 million), while loans grew 23% (\$1.2 million). Management is making an effort to increase loan growth, but demand in the immediate local area remains low as the population decreases, and there is significant competition from newer and larger institutions in the outlying areas outside the city of Granger. There has been historically low loan demand, and GNB’s income is generated primarily through investment interest income; loan income is secondary.

QUARTERLY AVERAGE LOAN-TO-DEPOSIT RATIOS		
Institution	Assets As of 3/31/16	Average LTD Ratio %
Johnson City Bank, Blanco County	\$116,656	78%
The First National Bank of Evant, Coryell County	\$76,503	69%
The City National Bank of Taylor, Williamson County	\$193,301	46%
Chappell Hill Bank, Washington County	\$24,745	42%
The Buckholts State Bank, Milam County	\$70,926	41%
Burton State Bank, Washington County	\$59,024	31%
Carmin State Bank, Fayette County	\$72,382	30%
First Texas Bank, Lampasas County	\$122,439	29%
The Granger National Bank, Williamson County	\$32,629	23%
The City NB of San Saba, San Saba County	\$60,063	19%

Source: Quarterly Call Reports from December 31, 2011 through March 31, 2016

Lending in Assessment Area

GNB exceeds the standards for satisfactory performance for lending within its AA. As the following table reflects GNB originated a substantial majority of loans, 79% of the number and 82% of the dollar volume, inside the AA. We noted the eight loans made outside of the AA were to borrowers or farms located in communities surrounding Granger and within Williamson County.

LENDING IN THE ASSESSMENT AREA										
Loan Type	Number of Loans					Dollars of Loans (\$,000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural/Farm	15	75%	5	25%	20	\$1,145	89%	\$139	11%	\$1,284
Secured by 1-4 Family Homes	15	83%	3	17%	18	\$820	74%	\$286	26%	\$1,106
Totals	30	79%	8	21%	38	\$1,965	82%	\$425	18%	\$2,390

Source: Loan Sample

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

Overall, GNB’s distribution of loans to borrowers of different income levels and to farms of different sizes reflects excellent penetration.

Residential Loans

Residential lending activity reflects excellent penetration of loans originated to borrowers with low- or moderate-income levels. The percentage of loans to low-income borrowers exceeds the percentage of low-income families in the AA. The percentage of loans to moderate-income borrowers is near to the percentage of moderate-income families in the AA.

BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN THE ASSESSMENT AREA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Secured by 1-4 Family	27%	33%	25%	20%	26%	20%	22%	27%

Source: Loan Sample, 2010 Census data

Farm Loans

Agricultural lending activity reflects excellent penetration of loans originated to farms with annual revenues equal to or less than \$1 million (small farms). The percentage of loans to small farms is near to the percentage of small farms in the AA. As reflected in the following table, 99% of farms in the AA have revenues equal to or less than \$1 million. The 2010 Census data reflects only one farm in the AA with revenues over \$1 million. Our sample included the one loan that GNB made to this one large farm making it mathematically impossible to exceed the percentage of small farms in the AA.

BORROWER DISTRIBUTION OF LOANS TO FARMS IN THE ASSESSMENT AREA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unknown	Total
% of AA Farms	99%	1%	0	100%
% of Bank Loans in AA by #	95%	5%	0	100%
% of Bank Loans in AA by \$	85%	15%	0	100%

Source: Loan Sample, 2010 Census data

Geographic Distribution of Loans

Geographic distribution of loans reflects excellent dispersion throughout the AA. There are no low-income census tracts or distressed middle income tracts in the AA.

Residential Loans

The geographic distribution of residential loans reflects excellent dispersion. As reflected in the following table, the percentage of loans in moderate-income tracts significantly exceeds the percentage of owner-occupied housing located in moderate-income tracts.

GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN THE ASSESSMENT AREA								
CT 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
Secured by 1-4 Family Homes	0%	0%	47%	80%	53%	20%	0%	0%

Source: Loan Sample, 2010 Census data

Farm Loans

The geographic distribution of loans to farms reflects excellent dispersion. As reflected in the following table, the percentage of loans to farms in the moderate-income census tracts significantly exceeds the percentage of farms located in moderate-income census tracts.

GEOGRAPHIC DISTRIBUTION OF LOANS TO FARMS IN THE ASSESSMENT AREA								
CT Income Level	Low		Moderate		Middle		Upper	
	% of AA	% of # of Loans	% of AA	% of # of Loans	% of AA	% of # of Loans	% of AA	% of # of Loans
Farms Loans	0%	0%	44%	65%	56%	35%	0%	0%

Source: Loan Sample, 2010 Census data

Responses to Complaints

GNB did not receive any complaints related to its CRA performance during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), or 12 CFR 195.28(c), in determining a national bank’s (bank) or federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

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