



PUBLIC DISCLOSURE

June 09, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Granbury
Charter Number 3727

101 E. Bridge Street, Granbury, TX 76048

Office of the Comptroller of the Currency
Fort Worth Field Office
9003 Airport Freeway, Suite 275, North Richland Hills, TX 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.

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

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The First National Bank of Granbury (FNB) has a satisfactory record of meeting community credit needs. This conclusion is based on the following:

- A majority of FNB's loans were originated within the assessment area (AA).
- The average quarterly loan-to-deposit (LTD) ratio is reasonable.
- FNB's distribution of loans to businesses with gross revenues of less than \$1 million is excellent. FNB's overall distribution of home mortgage products and consumer loans to low- and moderate-income (LMI) families is adequate when considering performance context issues.
- No consumer complaints regarding FNB's CRA performance were received during this evaluation period.
- FNB's community development (CD) performance demonstrates adequate responsiveness to the CD needs of its AA.

Scope of Examination

FNB qualifies as an Intermediate Small Bank (ISB) under the CRA regulation and is subject to a Lending Test and a CD Test. The Lending Test evaluates the bank's record of helping to meet the credit needs of its AA through its lending activities. The Community Development Test evaluates a bank's CD lending, qualified investments, and services.

The evaluation under the Lending Test covers loans originated between May 21, 2012 (the date of the prior Performance Evaluation) and June 9, 2014 (the date of the current Performance Evaluation). Performance under the Lending Test was assessed based on a review of FNB's commercial loans (including commercial real estate and commercial & industrial loans), 1-4 Family residential loans (1st lien), and consumer loans. Our sample included 20 loans for each of these three categories that were originated during the evaluation period. Community Development activities were evaluated over the same period.

For our evaluation of the distribution of loans, we utilized the demographics and geographies related to the 2010 Census.

Our evaluation is based on accurate data. We tested/sampled loans to verify the accuracy of data used for this evaluation. We also verified CD loans, investments and services submitted by management to ensure the investments and activities met the regulatory definition for community development. We excluded any items that did not meet the definition or purpose of community development.

As no affiliates exist, their activities were not considered in this evaluation.

Description of Institution

FNB is a community bank that was chartered in 1887 in Granbury, Hood County, Texas. The bank operates its main office in historic downtown Granbury in its original location on the courthouse square. In addition, FNB has six full-service branches spread throughout Hood County and one mobile branch that is used to provide service at a senior citizen center and financial literacy training at local schools. The bank also has a Loan Production Office, FNB Mortgage Group, located in the State Highway 377 Branch in Granbury. Drive-thru services are provided at the main office and all branch facilities, except the Kroger location. FNB has eight Automatic-Teller-Machines (ATM). One ATM is located at each of the six branches and two ATMs are located at the main office. Hours of operation are commensurate with those of other area banks.

FNB is a wholly-owned subsidiary of First Granbury Bancorporation, a one-bank holding company headquartered in Granbury, Texas. FNB has no operating subsidiaries and had no merger or acquisition activity during the evaluation period. FNB has not opened or closed any branches during this 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 offers the customary credit products and depository accounts. As of March 31, 2014, the bank's total assets were \$465 million, total loans were \$195 million, and total deposits were \$416 million. The bank offers a full range of loan products and deposit services. Loan products offered consist of residential mortgage loans, residential construction loans, commercial real estate loans, commercial loans, agriculture loans and consumer loans. Loans are funded through deposits. The following table reflects the loan portfolio as of March 31, 2014:

Loan Portfolio Composition as of March 31, 2014		
Loan Category	\$(000)	%
Residential Real Estate	84,089	43.1
Construction & Development RE	36,427	18.7
Nonfarm Nonresidential RE	36,364	18.6
Consumer & Other	14,938	7.6
Farm loans and Agriculture RE	13,199	6.8
Commercial & Industrial	10,285	5.3
Total	\$195,302	100.00

Source: March 31, 2014 Report of Condition

The bank's lending strategy continues to be the origination of commercial, 1-4 Family residential loans, and consumer loans.

Banking competition is aggressive in Hood County and competition from other financial institutions is increasing. FNB's competitors include branches of large regional and national institutions, and several mortgage/finance companies.

FNB received an overall rating of "Satisfactory" during its previous CRA examination dated May 21, 2012.

Description of Hood County

FNB has one AA consisting of all of Hood County that has ten census tracts. Seven of the tracts are upper-income and three are middle-income. The AA meets the requirements of the CRA regulation, does not arbitrarily exclude low- and moderate-income geographies, and includes only those portions of political subdivisions that FNB can reasonably be expected to serve.

According to the June 30, 2013 FDIC Deposit Market Share Report, nine banks and one thrift operate 23 branches within Hood County. FNB dominates the banking competition, holding 46.42% of the market share. Community Bank is second with 15.89%. Compass Bank and First Financial Bank, National Association round out the top four at 11.29% and 10.33%, respectively. Five banks and one thrift account for the remaining 16.07% of deposits.

Hood County is one of 254 counties in the state of Texas. It is located 15 miles southwest of Fort Worth. Hood County is growing. Contributors to its economy are the large retirement population and tourism centered in proximity to Lake Granbury, including historic Granbury Square and the Granbury Opera House. New residents in the Granbury area include middle-class families relocating from the Dallas/Fort Worth Metroplex that are attracted to the small town lifestyle and quality of life. Approximately 70% of Hood County's workforce commutes outside of the county, primarily to the Comanche Peak Nuclear Power Plant and to employers in the Benbrook/Fort Worth area.

Leading employers in the AA include Lake Granbury Medical Center, Granbury ISD, the City of Granbury, the Comanche Peak Nuclear Power Plant (in adjacent Somervell County), Bond Arms (small handgun manufacturer), Total Equipment (custom fabricator of engine-driven products for the oil and gas industry), tourism, and retail businesses such as Lowe's, Home Depot and automobile dealerships. The local food industry includes small vineyards and a cheese maker.

The 4.2% unemployment rate for the AA is lower than the State of Texas rate of 5.3% - both of which are lower than the United States (6.7%) as of March 31, 2014.

As noted in the demographic data table below, over 23% of households in the AA consist of retired residents and 38% of households received social security benefits. Of the total number of businesses and farms in the AA, 72% have 1-4 employees and 75% earn less than \$500,000 of annual revenue. Low- and moderate-income families represent 25% of the AA's total families.

Demographic and Economic Characteristics of Hood County AA	
Population	
Total Population	51,182
Number of Families	14,669
Number of Households	20,240
% Retired Households	23.25%
% SS Households	37.62%
Businesses and Farms	
Number of Businesses and Farms	6,993
Businesses and Farms with less than five employees	71.71%
Businesses and Farms with less than \$500,000 annual revenue	74.56%
Residential	
% owner occupied units	66.48%
Geographies	
Number of Census Tracts	10
% Low-Income Census Tracts	0.0%
% Moderate-Income Census Tracts	0.0%
% Middle-Income Census Tracts	30.0%
% Upper-Income Census Tracts	70.0%
Demographics	
Low income families	12.97%
Moderate-income families	12.11%
Median Family Income (MFI)	
2010 Census MFI	\$48,160
2013 HUD-Adjusted MFI	\$49,300
Economic Indicators	
Unemployment Rate	4.2%
2010 Median Housing Value	\$148,971
% Households Below Poverty Level	9.55%

Source: 2010 Census data and HUD updated income data.

We determined the community credit needs in the AA through discussions with management and input from community contacts. Minimal emphasis was placed on reviewing the CRA Performance Evaluations of other banks and thrifts operating in the same AA, as none were of similar size and only one operates solely in the AA. We determined the most pressing credit needs in the AA are financing for small business startups and existing businesses, and affordable housing inventory.

Conclusions with Respect to Performance Tests

LENDING TEST

FNB's performance under the Lending Test is **Satisfactory**.

FNB's primary business lines are residential real estate, construction & development, nonfarm nonresidential real estate, and consumer lending. We sampled and reviewed first lien 1-4 family residential loans and consumer loans. We also sampled and reviewed commercial loans to assess FNB's distribution of loans among businesses of different sizes. Equal weight was given to each type of lending when evaluating lending performance based on the criteria tested below.

Loan-to-Deposit Ratio

FNB's LTD ratio is reasonable and meets the standards for satisfactory performance given the bank's size, financial condition, and the credit needs in its assessment area. FNB reflects a willingness to provide credit to the AA. FNB's LTD ratio is within the range (lower end) of the LTD ratios of the other banks considered in the comparative group. The comparative group includes the ten banks chartered in Hood and all contiguous counties.

The LTD ratio measures the extent to which the bank has returned the deposits it has acquired to the community in the form of loans. The average of this ratio for each quarter-end since the previous CRA examination is used to determine performance. In the eight quarters since the prior exam, FNB's average loan-to-deposit ratio was 43%. The ratio ranged from a low of 41% as of the second quarter 2013, to a high of 47% as of the first quarter 2014. The LTD ratio has declined slightly over the past two years due to soft loan demand. At the last CRA exam, the average LTD ratio was 49%.

The average LTD ratio for community banks in the comparative group during the evaluation period was 61%. The LTD ratio for the group ranged from 34% to 81%. While FNB's LTD ratio is at the lower end of the range, FNB's ratio reflects a willingness to provide credit in light of mitigating factors. For example, FNB sells a significant portion of its 1-4 Family residential loans to secondary market investors. This would account for a lower LTD ratio. Since the beginning of 2012, FNB sold \$72 million in mortgages they originated into the secondary market. If all or a portion of these loans had been retained, the bank's average LTD ratio would be much higher.

Lending in Assessment Area

The bank's lending activities meet applicable standards and reflect the bank's commitment to meeting the credit needs of its community. A majority of the loans in all three lending lines we tested (commercial, residential mortgage, and consumer loans)

were made inside the bank's AA. As depicted in the table below, 70% of the number and 76% of the dollar amount of loans were originated inside FNB's AA.

Table 1 - Lending in Hood County AA								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Commercial	13	65%	\$2,914	68%	7	35%	\$1,354	32%
Single Family Residential	13	65%	\$1,159	77%	7	35%	\$347	23%
Consumer	16	80%	\$140	84%	4	20%	\$26	16%
Total Reviewed	42	70%	\$4,213	76%	18	30%	\$1,727	24%

Source: Loan Sample.

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

Overall, FNB's distribution of loans reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes and meets the standards for satisfactory performance.

Residential Loans

FNB's distribution of residential mortgage loans among borrowers of different income levels is adequate. As illustrated in Table 2A below, the distribution of residential loans to low-income families reflects a reasonable penetration of 15%, which is in-line with the 13% of families in the AA being low-income. The distribution of residential loans to moderate-income families is excellent at 20%, in comparison to 12.1% of families in the AA being moderate-income.

Table 2A– Borrower Distribution of Residential Real Estate Loans in Hood County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Residential Loans	13%	15%	12%	20%	18%	25%	57%	40%

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

Commercial Loans

As shown in Table 2B below, the number of loans to small businesses is excellent at 90% when compared to the percentage of small business in the AA at 76%. A similar comparison holds true for the dollar volume of loans at 91%.

Small businesses are categorized as businesses with annual revenues less than \$1 million. The distribution of the loans in our sample demonstrated the bank's commitment to lend to small businesses.

Table 2B - 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	76%	2%	22%	100%
% of Bank Loans in AA by #	90%	5%	5%	100%
% of Bank Loans in AA by \$	91%	7%	2%	100%

Source: Loan sample; Dun and Bradstreet data.

Seventy percent of the number of loans to businesses originated by FNB had an original amount of less than \$250 thousand. Loan size often correlates to the size of the business.

Consumer Loans

FNB's distribution of consumer loans is satisfactory. As detailed in Table 2C below, the percent of the number of consumer loans made to low-income borrowers (30%) exceeds the percent of households in the AA that fall within that income level (13%). The distribution of loans to the moderate-income borrowers (10%) is comparable to the demographic (14%).

Of the consumer loans originated during the evaluation period, FNB originated 431 loans for \$1,000 or less. The bank has no minimum loan amount in policy or practice. This is indicative of the bank's willingness to meet the credit needs of the community.

Table 2C - 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	13%	30%	14%	10%	16%	25%	57%	35%

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

Geographic Distribution of Loans

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

Responses to Complaints

FNB has not received any complaints regarding its CRA performance during the evaluation period.

COMMUNITY DEVELOPMENT TEST

FNB's responsiveness to the community development needs of the AA through CD lending, investments, and services is adequate. Our conclusion is based on the bank's level of activity and performance context.

FNB demonstrates an adequate responsiveness to the CD needs of the AA through the use of CD loans, qualified investments, and CD services considering the bank's capacity and financial condition, and the need and availability of such opportunities in the AA. The bank centers its CD efforts primarily in qualified investments.

The evaluation period starts at the date of the last CRA evaluation period (May 21, 2012) and goes to the date of the current CRA evaluation (June 9, 2014).

Number and Amount of Community Development Loans

Considering the needs and opportunities in the AA, and FNB's performance context and capacity, the bank's performance is adequate relative to CD lending.

FNB has one CD loan and it was renewed during the evaluation period, in the amount of \$338 thousand. This loan provided permanent financing for the construction of a senior citizen's center, which houses the Hood County Committee on Aging. This organization provides services and activities that significantly impact LMI individuals in the AA. This organization's mission is to meet the needs of the senior citizens of Hood County. This is accomplished through an extensive on-site meals program, meal delivery program (Meals on Wheels), transportation for medical appointments and grocery shopping, homemaker housekeeping services, and daily activities designed to keep seniors active and involved. Services provided by this organization are primarily tailored to benefit LMI elderly individuals in the AA.

Number and Amount of Qualified Investments

Considering the needs and opportunities in the AA, and FNB's performance context and capacity, the bank's performance is excellent relative to qualified investments. During the evaluation period, FNB had 12 qualified investments totaling \$1,463 thousand, nine of which were charitable donations totaling \$12 thousand.

Most notable was a \$1.0 million equity investment in the Solomon Hess SBA Loan Fund. The Fund purchases the federally guaranteed portion of SBA loans made to businesses located in the AA of banks investing in the fund. It was formed to provide liquidity to small business lenders and to meet the demand for CRA qualified investments. The Fund is certified by the Community Development Financial Institutions (CDFI) Fund of the U.S. Treasury Department as a Community Development Entity. FNB's investment is allocated to an SBA loan made to a Granbury gas and convenience store. This investment qualifies for CD because five permanent jobs were created or retained, most of which will be/are staffed by low- and moderate-

income (LMI) persons and the business is located in a CDFI Fund Qualified Investment census tract.

FNB invested an additional \$451 thousand in two Small Business Investment Companies (SBIC) funds. The initial investments in both funds were made in the prior review period. These funds promote economic development by providing financing to small businesses. Proceeds were used to finance businesses located outside the AA.

FNB made \$12 thousand of qualifying donations to six CD organizations. The bulk of the donations were to Mission Granbury, Inc. (\$6,000) and United Way (\$5,000). In addition to fulfilling their objectives to provide social services to LMI individuals and families, both organizations were active in assisting the displaced victims of the May 2013 EF-4 level tornado that struck Granbury.

FNB continued three equity investments totaling \$489 thousand that were made in prior review periods.

Extent to Which the Bank Provides Community Development Services

During the evaluation period, FNB exhibited an adequate responsiveness to the CD service needs of the AA.

FNB's banking programs and hours allow the bank to deliver needed banking and credit services to LMI customers as well as small business owners throughout the bank's AA. Banking products and services are delivered primarily through FNB's main office and six branches that are located in accessible locations throughout the AA. Each branch has a drive-up facility, is supported by an ATM and offers a range of traditional retail banking services and products. FNB also has a mobile branch that provides banking services to a local retirement home two days a week. The bank offers 24-hour banking by telephone, internet, mobile device, and Visa debit cards. All locations maintain standard banking hours Monday through Thursday with extended lobby hours on Friday evenings and Saturday mornings. Drive-up facilities are open from 8 a.m. to 6 p.m. Monday through Friday as well as Saturday mornings. The Kroger store branch is open Monday through Saturday with extended hours.

FNB continues to meet the CD service needs of the AA through volunteer activities by its directors, officers and employees, many on a continuing basis to the organizations. Bank staff served as directors and finance committee members, and provided strategic planning, fundraising, and budgeting expertise. The organizations are engaged in a variety of community services targeted to LMI individuals and families.

FNB is an approved lender for the USDA Rural Development Single Family Housing Loan Guarantee Program. USDA mortgages are government-backed loans that enable LMI single-family homebuyers in rural areas to purchase their own home. Features of the USDA loans include: low 30-year fixed rates, 100% financing, no requirement for

private mortgage insurance, and relaxed credit guidelines. During the review period, FNB originated \$7.4 million of these loans.

Responsiveness to Community Development Needs

The volume and responsiveness of FNB to the CD needs of the AA is adequate. The Board has identified financing for small business startups and existing businesses, economic development, and affordable housing for LMI families and individuals as its primary CD goals. The bank has allocated dollars and manpower resources to achieve those goals through its:

- banking and loan products to assist small business owners and LMI individuals,
- participation in federal lending programs to facilitate the purchase of affordable housing by LMI individuals,
- CD loans and investments to finance organizations whose purpose is community services and economic development,
- financial support of non-profit CD organizations through cash donations, and
- active participation and leadership in providing financial management and oversight of CD organizations whose purpose includes economic development and community services.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 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.