



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

December 17, 2007

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
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Dallas, 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 Granger National Bank’s (GNB) lending performance meets the standards for satisfactory performance in meeting the known credit needs of its community.

- The bank’s quarterly loan-to-deposit (LTD) ratio of 23% is below average for competing banks, but is reasonable in light of competitive factors and lending opportunities in the assessment area (AA).
- A majority of loans are within the bank’s AA. Approximately 67 of the number and 61% of the dollar volume of loans were to borrowers within the AA.
- GNB has demonstrated strong performance in its willingness to extend loans to individuals of varying incomes and businesses of different sizes.
- The geographic distribution of residential and small business loans reflects a strong dispersion throughout the AA.
- There were no complaints concerning its Community Reinvestment Act (CRA) performance during the evaluation period.

The following pages further describe GNB’s CRA performance.

DESCRIPTION OF INSTITUTION

GNB is a \$24 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 located in Granger, Texas. The bank has no branches or automated teller machines (ATM) and does not currently provide Internet banking. The one drive-in facility is attached to the bank’s 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 loans. 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, 2007, are \$5 million and represent 19% of total assets. The following table details the composition of GNB’s loan portfolio as of September 30, 2007.

TABLE # 1		
LOAN PORTFOLIO COMPOSITION		
Loan Category	\$ (000)	%
RE Farmland	433	9%
RE Residential (1-4)	1,057	23%
RE Nonfarm Nonresidential	1,361	30%
Agricultural Production	1,172	26%
Consumer	563	12%
Total	4,586	100%

Source: Institution Consolidated Report of Condition

Complete banking services are provided Monday through Friday at the main office and drive-in facility. GNB faces direct competition from one state chartered bank in Granger and multiple state and nationally chartered banks, savings and loans, and credit unions in Taylor, Texas. 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. At the last CRA examination in September 2003, 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 contiguous census tracts that are located in eastern Williamson County. These tracts are part of the Austin-Round Rock metropolitan statistical area (MSA). The AA includes the city of Taylor and smaller communities/cities such as Granger, Thrall, and Bartlett, which surround and include the one banking office. The AA meets the requirements of the regulation and does not arbitrarily exclude low- to moderate-income geographies. Based on the 2000 census U.S. Census data, this portion of Williamson County has a population of 21,827, of which 12% of the households live below the poverty level. The AA includes three moderate-income tracts and four middle-income tracts. There are no low- or upper-income tracts located in the AA. The following table further describes GNBs AA.

TABLE # 2	
DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	5,493
Number of Households	7,425
<i>Geographies</i>	
Number of Census Tracts	7
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	43%
% Middle-Income Census Tracts	57%
% Upper-Income Census Tracts	0%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$47,571
2007 HUD-Adjusted MFI	\$69,600
<i>Economic Indicators</i>	
Unemployment Rate	1.39%
2000 Median Housing Value	\$73,741
% of Households Below Poverty Level	11.82%

Source: US Census Data

In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted the local mayor of Granger. The contact stated all financial institutions are active in the community and there is good responsiveness to credit and service needs. The individual also stated they were unaware of any unmet credit or servicing needs in the Granger community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

GNB's level of lending performance in meeting the credit needs of the AA meets the standards for satisfactory performance. We evaluated the institution using five criteria established for small banks. The criteria includes individual assessments of the average level of total loans as a fraction of total deposits, the level of loans originated within the AA, the reasonableness of loan dispersion to individuals and businesses of different income levels and geographies, and management's response to complaints received. Additionally, we review any evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

Sampling/Comparison Information

To determine the bank's performance in lending to borrowers of differing incomes, sizes, and geographies, we sampled 20 loans originated within the AA for two of the bank's three primary loan products. For the purposes of this evaluation, we did not sample residential real estate loans. While residential real estate comprises 23% of the bank's loan portfolio, the volume of real estate loans originated is much lower than the volume of consumer loans originated. Thus, consumer loans are more appropriate for statistical comparison with area demographics. For the purpose of our evaluation, we combined commercial/small business and farms loans into one sample. GNB originated all loans in our samples since the previous CRA examination. In evaluating the bank's LTD ratio, we compared GNB to three banks with headquarters in Williamson County and one bank in Burnet County using historical balance sheet information. To determine the lending performance inside and outside of the AA, we reviewed internal reporting information of all loan originations since the last evaluation.

Loan-to-Deposit Ratio

GNB's LTD ratio has averaged 23% during the 17 quarters since our last examination. This level of performance is satisfactory, given the bank's asset size and known lending opportunities in the AA. To assess GNB's performance, we compared it with four other similarly situated banks. LTD ratios for these banks ranged from 23% to 72%, and the average LTD was 40%. The bank with the highest LTD ratio, First State Bank Granger, has four branches in addition to the main office located in Williamson County. Farmers State Bank in Bertram, Texas, is most similar in size and community profile. Farmers State Bank has one location in Bertram, a town with a population of 1,122 as of the 2000 Census, compared to the 1,299 population of Granger. Given GNB's location in an isolated rural area with limited lending opportunities, the LTD ratio meets the standard for satisfactory performance. Please see Table 3 below for further details.

TABLE # 3		
QUARTERLY AVERAGE LOAN-TO-DEPOSIT RATIOS		
Institution	Assets As of 9/30/07	Average LTD Ratio %
Farmers State Bank - Bertram	27,187	23%
City National Bank - Taylor	216,880	29%
Eagle Bank - Jarrell	17,693	37%
First State Bank - Granger	77,911	72%
Granger National Bank	25,143	23%

Source: Institution Consolidated Reports of Condition

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 criterion, we reviewed internal reporting information for all loans originated since the prior evaluation. As a percentage of the total number of originations, 67% of GNB’s loans are within the AA. As a dollar amount, the percentage declines to 61%, due to a few large dollar loans located outside the AA. We found loans originated outside the AA to be generally located within Williamson County. The following Table 4 illustrates the results of our analysis.

TABLE # 4								
LENDING INSIDE THE ASSESSMENT AREA								
	In Assessment Area				Out Of Assessment Area			
<i>Loan Type</i>	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>
Total Reviewed	367	67	6,717	61	179	33	4,382	39

Source: Bank Records

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

GNB’s level of lending to borrowers of different incomes and businesses of different sizes within the AA exceeds the standards for satisfactory performance. The bank’s level of performance in lending to consumers of differing income levels is more than reasonable. Demographic information indicates 31% of the AA households are low-income, while 19% are moderate-income. GNB originated 55% of sampled consumer loans to low-income borrowers and 20% to moderate-income borrowers. Please see Table 5 below for further details.

TABLE # 5								
BORROWER DISTRIBUTION OF CONSUMER LOANS IN THE AA								
<i>Borrower Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
% of AA Households	31		19		20		30	
<i>Loan Type</i>	<i>% of Number</i>	<i>% of Amount</i>						
<i>Consumer Loans</i>	55	23	20	50	10	4	15	23

Source: US Census Data; Bank Records

GNB’s distribution of loans to small businesses, as defined as businesses with annual gross revenues of less than \$1 million, is reasonable. According to U.S. Census information, 95% of businesses in the AA have revenues of less than \$1 million. Of the sampled business loans GNB originated in the AA, 100% had revenues below \$1 million. Please see Table 6 below for further details.

TABLE # 6		
BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES IN THE AA		
<i>Business Revenues</i>	<i>≤\$1,000,000</i>	<i>>\$1,000,000</i>
% of AA Businesses	95	5
% of Bank Loans in AA \$	100	0
% of Bank Loans in AA #	100	0

Source: US Census Data; Bank Records

Geographic Distribution of Loans

The geographic distribution of loans to low- and moderate-income areas within the AA exceeds the standards for satisfactory performance. As there are no low-income CTs in the AA, this analysis is limited to the bank’s performance in lending to moderate-income areas.

The bank’s level of performance in lending to consumers within moderate-income census tracts is more than reasonable. Demographic information indicates 41% of the AA households reside within moderate-income census tracts. GNB originated 80% of sampled consumer loans to borrowers residing in moderate-income census tracts. See Table 7 below for further details.

TABLE # 7								
GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS IN THE AA								
<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
% of AA Households	0		44		56		0	
Loan Type	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Consumer Loans	0	0	80	89	20	11	0	0

Source: US Census Data; Bank Records

GNB’s level of commercial lending in moderate-income census tracts is more than reasonable. Demographic information indicates 42% of the AA business and farms reside within moderate-income census tracts. GNB originated 70% of sampled commercial and farm loans to borrowers residing in moderate-income census tracts. See Table 8 on the following page for further detail.

TABLE # 8								
BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES IN THE AA								
<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
% of AA Businesses/Farms	0		42		58		0	
Loan Type	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Small Business / Farm Loans	0	0	70	76	30	24	0	0

Source: US Census Data; Bank Records

Responses to Complaints

GNB has not received any complaints or public comments regarding its CRA performance during this evaluation period.

Fair Lending Review

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