



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**February 25, 2008**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First National Bank in Graham  
Charter Number 4418

2nd & Elm Street  
Graham, TX 76046

Office of the Comptroller of the Currency

Fort Worth Field Office  
9003 Airport Freeway Suite 275  
North Richland Hills, TX 76180

**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 performance of First National Bank in Graham 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 78% since the previous CRA examination meets the standards for satisfactory performance given the bank's size, financial condition, local competition, and assessment area credit needs.
- A majority of the bank's lending activities are within the assessment area. Based on the loans reviewed in our sample, 75% of the number and 80% of the dollar amount were originated within the assessment area.
- The distribution of loans among individuals of different income levels and businesses of different sizes meets the standards. A reasonable portion of our 1-4 family and consumer auto samples was to low and moderate income families and households. Also, the bank makes small dollar loans, primarily unsecured, to help meet the community credit needs. A large portion of the commercial loans were to small businesses.
- The geographic distribution of loans demonstrates reasonable penetration in the moderate income census tracts (there were no low income census tracts in the assessment area).

## **SCOPE OF EXAMINATION**

The evaluation period for our assessment of First National Bank in Graham (FNB's) CRA efforts, was September 1, 2007 to February 19, 2008. Loan products evaluated include 1-4 family purchase loans, consumer auto loans and commercial loans. Our samples include all 1-4 family purchase loans made in 2007, 20 consumer auto loans and 20 commercial loans. We performed a full-scope review of FNB's assessment area – Jack, Palo Pinto, Parker and Young Counties, Texas, which was the basis of our overall rating of FNB's CRA efforts. During our initial review we noted that the Graham facility conducted the vast majority of the lending activity, however our samples also included loans originated at the Bryson and Aledo facilities. Our conclusions are based on samples from all facilities.

## DESCRIPTION OF FIRST NATIONAL BANK IN GRAHAM

FNB is a community bank in Graham, Texas, which is located approximately 85 miles northwest of Fort Worth, Texas, and 60 miles south of Wichita Falls, Texas. The bank operates from three locations. The main bank is in downtown Graham and the branches are located in Bryson, Texas, and Aledo, Texas. Bryson is approximately 13 miles east of Graham and Aledo is located between Ft. Worth, Texas and Weatherford, Texas, on Interstate 20. The Graham and Aledo facilities operate on-premises Automated Teller Machines (ATMs). All facilities operate drive-up tellers.

FNB is a full-service community bank offering a wide variety of loan and deposit products and a full service trust department. The bank also offers transactional Internet banking through [www.fnbgraham.com](http://www.fnbgraham.com). As of December 31, 2007, FNB had total assets of \$183 million, total loans of \$128 million, and total deposits of \$156 million. The following table presents the bank's loan information as of December 31, 2007.

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Commercial Real Estate Loans	\$69,194	54%
Consumer Loans	\$19,300	15%
Commercial Loans	\$16,279	13%
Real Estate Loans – Residential	\$13,683	11%
Real Estate Loans – Farmland	\$4,432	3%
Agricultural Loans	\$4,117	3%
Other	\$1,113	1%
<b>Total</b>	\$128,118	100%
Percentage of Loans to Total Assets	70%	

FNB is 100% owned by First Graham Delaware Corporation, which is 100% owned by First Graham Bancorp, Inc. (GBI), a two-bank holding company. FNB is the lead bank in the GBI holding company. GBI's other bank, which is affiliated through common ownership, is First Security Bank (FSB) located in Flower Mound, Texas. Flower Mound is located in the northern part of the Dallas/Fort Worth Metroplex.

Neither the corporate structure of FNB nor that of the holding company has changed since the prior CRA examination and no changes are currently planned. Primary competition in Graham comes from three other local financial institutions, and to a lesser degree, other financial institutions within Young and the surrounding counties.

The most recent CRA examination was performed as of September 28, 2003. The bank received a satisfactory rating at that examination. There are no legal or financial impediments to the bank's ability to meet the credit needs of its assessment area.

## DESCRIPTION OF ASSESSMENT AREA

FNB has defined its assessment area as Jack, Palo Pinto, Parker and Young Counties. Graham lies within Young County, which is the county seat. The Bryson facility is located in southern Jack County and Aledo facility is located in Parker County. These counties are contiguous and are considered to be one assessment area. The assessment area is legal and meets the requirements of the regulation. Jack, Palo Pinto and Young Counties are not part of any Metropolitan Statistical Area (MSA). Parker County is part of the Ft. Worth MSA. Below is a description of the assessment area, which includes information on demographics, housing, and family data.

<b>Assessment Area</b>	
<i>Population</i>	
Number of Families	39,312
Number of Households	51,970
<i>Geographies</i>	
Number of Census Tracts	30
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	10%
% Middle-Income Census Tracts	80%
% Upper-Income Census Tracts	10%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$43,698
2006 HUD-Adjusted MFI	\$51,767
<i>Economic Indicators</i>	
Unemployment Rate	2.13%
2006 Median Housing Value	\$74,382
% of Households Below Poverty Level	11.45%

Data Source: 2000 Census with selected updates through 2006

The primary credit needs of the Graham and Bryson communities continue to be related to the manufacturing, oil and gas, ranching and other agriculture industries. Stemming from these are credit needs that include financing for home purchase or home improvement, automobile, and other consumer related loans. The Aledo community is more diversified and credit needs center around residential and small business customers.

Major employers in all areas are the school districts. The Graham area also includes the city and county governments, Southern Bleachers, the hospital and Wal-Mart. The Aledo area primarily serves as a bedroom community to Ft. Worth and Weatherford, where many of the residents commute for employment.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Our conclusions in this section are based on the lending activity from the last CRA examination dated September 28, 2003. We used loan, borrower income, and assessment area data provided by the bank and tested it for accuracy. We selected samples from the 1-4 family mortgage, commercial and consumer auto portfolios in order to evaluate the bank's lending performance within the assessment area (refer to **SCOPE OF THE EXAMINATION** for details). For the **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes, and Geographic Distribution of Loans**, we replaced loans originated outside of the assessment area with loans originated inside of the assessment area.

### Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio meets the standards for satisfactory performance.

The LTD 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 LTD ratio for FNB since the last CRA examination is 78%. The assessment area has a number of banks (13) to compare FNB with, and this does not include branches of financial institutions chartered outside the assessment area, credit unions, co-ops, etc. The range of average LTD ratios for these banks was 50% to 99%. Based on this information, FNB's LTD ratio is reasonable and meets the credit needs of the communities served.

### Lending in Assessment Area

FNB's lending within the assessment areas meets the standards for satisfactory performance.

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

At this time, FNB does not track loans by location. To assess the bank's performance in this area we used the samples noted above. Based on our sample results, a majority of loans are within the bank's assessment area. The following tables reflect the results of our assessment of the bank's efforts to lend in its assessment area.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
1-4 Family Loans	38	84%	\$5,327	94%	7	16%	\$352	6%
Consumer Loans	11	55%	\$92	50%	9	45%	\$92	50%
Commercial Loans	15	75%	\$506	32%	5	25%	\$1,054	68%
<b>Total Reviewed</b>	<b>64</b>	<b>75%</b>	<b>\$5,925</b>	<b>80%</b>	<b>21</b>	<b>25%</b>	<b>\$1,498</b>	<b>20%</b>

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

FNB’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 income information during the loan decision process. However, this information is not monitored or used to assess the efforts to meet the standards for CRA purposes. To assess FNB’s efforts, we used the samples noted above. Our analysis, detailed in the tables below, indicates that the bank is reasonably lending to borrowers of all income levels and businesses of different sizes. Additionally, the bank does not have a minimum loan amount in policy. A review of small loans reflected the bank has several loans with originating balances of \$1,000 or less, currently on the books (the lowest originating amount was \$489). We noted there were several other loans with originating balances between \$1,000 and \$1,500. This indicates the bank willingly extends credit to meet the needs of the consumer. Overall, we concluded that the bank’s performance is generally proportionate to the income levels of families and households within the assessment area, and the credit needs of low- and moderate-income individuals are being met. Also, the bank meets the needs of the small businesses.

*1-4 Family Purchase Loans -*

Borrower Distribution of 1-4 Family Purchase Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Consumer Loans	19%	8%	20%	13%	23%	17%	38%	60%

Note: 2% of the number and 1% of the dollar amount of loans sampled did not have income information.

*Consumer Auto Loans -*

<b>Borrower Distribution of Consumer Auto Loans</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
	<b>% of AA Households</b>	<b>% of Number of Loans</b>	<b>% of AA Households</b>	<b>% of Number of Loans</b>	<b>% of AA Households</b>	<b>% of Number of Loans</b>	<b>% of AA Households</b>	<b>% of Number of Loans</b>
<b>Consumer Loans</b>	22%	30%	17%	15%	20%	15%	41%	35%

Note: 5% of the number and 6% of the dollar amount of loans sampled did not have income information.

*Commercial Loans -*

<b>Borrower Distribution of Loans to Businesses</b>				
<b>Business Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unavailable/Unknown</b>	<b>Total</b>
<b>% of AA Businesses</b>	62%	3%	35%	100%
<b>% of Bank Loans in AA by #</b>	85%	10%	5%	100%
<b>% of Bank Loans in AA by \$</b>	85%	14%	1%	100%

**Geographic Distribution of Loans**

FNB’s loan distribution, to the different geography income levels, meets the standards for satisfactory performance. The distribution of loans originated follows a pattern indicative of an institution seeking to serve the credit needs of the assessment area.

As noted before, the bank obtains specific borrower information, including addresses but does not track loans by location for CRA purposes. Therefore, the samples noted earlier were used to assess the bank’s effort in this section. Based on our analysis, FNBs lending efforts reasonably penetrate into the geographies of the different income levels. The results of our analysis are illustrated in the following table.

<b>GEOGRAPHIC DISTRIBUTION OF LOANS</b>						
<b>Geographic Breakdown *</b>	<b>Moderate Income</b>		<b>Middle Income</b>		<b>Upper Income</b>	
<b>% of Geographies</b>	10%		80%		10%	
	<b>% of Number</b>	<b>% of Amount</b>	<b>% of Number</b>	<b>% of Amount</b>	<b>% of Number</b>	<b>% of Amount</b>
1-4 Family	0%	0%	100%	100%	0%	0%
Consumer	15%	9%	80%	84%	5%	7%
Commercial	0%	0%	60%	65%	40%	35%

\* There are no Low Income geographies in the assessment area

The lack of activity in the 1-4 family and commercial loans in the moderate income tracts is due to the following.

- Two of these tracts are located in Mineral Wells, Texas, approximately 30 miles southeast of Graham and approximately 35 miles west of the Aledo branch. There are 1 state and 3 national banks in Palo Pinto County, two of which are actually in Mineral Wells. This doesn't include any branches of banks chartered outside the assessment area, or credit unions, co-ops, etc. It appears that there are a sufficient number of financial institutions in the area to meet the credit needs of the low and moderate income areas.
- One tract is located in western Weatherford, Texas, approximately 70 miles southeast of Graham and approximately 12 miles west of the Aledo branch. There are 1 state and 2 national banks chartered in Parker Co., all of which are in Weatherford. This doesn't include any branches of banks chartered outside the assessment area, or credit unions, co-ops, etc. It appears that there are a sufficient number of financial institutions in the area to meet the credit needs of the low and moderate income areas.

### **Responses to Complaints**

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

### **Fair Lending or Other Illegal Credit Practices Review**

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