



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

June 15, 2009

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Granbury  
Charter Number: 3727

101 E. Bridge Street  
Granbury, Texas 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 substantial majority of FNB's loans were originated within the assessment area (AA).
- The loan-to-deposit (LTD) ratio is reasonable and averaged 51% during the evaluation period.
- 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 reasonable 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 thus subject to a Lending Test and 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 CD Test evaluates a bank's CD lending, qualified investments, and services.

The evaluation under the Lending Test covers loans originated between January 1, 2006 and June 15, 2009. Performance under the Lending Test was assessed based on a review of FNB's commercial loans (including commercial real estate and commercial and industrial loans), residential real estate loans, and consumer loans. Our sample included 20 of each type of loan originated during the evaluation period. CD activities were evaluated over the same period.

## Description of Institution

FNB is an intrastate community bank that was chartered in Granbury, Texas in 1887. Granbury is located in Hood County. In addition to its main office at 101 E. Bridge Street, FNB operates six full-service branches in Hood County. There are also seven motor banks and eight automated teller machines (ATMs) throughout the assessment area (AA). FNB opened its Tolar branch in September 2001. The Pecan Plantation branch was established in December 2003. FNB has not closed any branches during this evaluation period.

FNB is a wholly owned subsidiary of First Granbury Bancorporation, a one-bank holding company headquartered in Granbury, Texas. FNB offers customary credit products and depository accounts. FNB has no operating subsidiaries and had no merger or acquisition activity during the evaluation period. There are no legal, financial or other factors impeding the bank's ability to help meet the credit and CD needs in its assessment area.

FNB reported total assets of \$359 million and total liabilities of \$322 million as of March 31, 2009. Total loans of \$169 million represent 47% of total assets. The following chart details the composition of FNB's loan portfolio as of March 31, 2009.

<b>Loan Portfolio Composition as of March 31, 2009</b>		
<b>Loan Category</b>	<b>\$(000)</b>	<b>%</b>
Commercial Real Estate	69,997	41.32
Commercial & Industrial	13,442	7.93
Residential Real Estate	56,174	33.16
Consumer & Other	19,126	11.29
Farm loans & Agriculture RE	10,675	6.30
<b>Total</b>	<b>\$169,414</b>	<b>100.00</b>

*Source: March 31, 2009 Report of Condition*

FNB received an overall rating of “Satisfactory” during its previous CRA examination dated January 17, 2006, and using ISB CRA Procedures.

Banking competition is aggressive in Hood County and includes dominant affiliates of large national banking companies, large regional financial institutions, and numerous small community banks.

A community contact conducted in connection with this examination disclosed that there are no significant gaps in local financial institutions meeting the credit needs of the AA. The primary credit needs identified include financing for affordable housing and other residential mortgage lending, LMI residential rehabilitation and property improvement loans, commercial real estate construction loans, small business loans in support of economic development, and consumer loans.

## Description of Assessment Area

FNB has designated Hood County as its AA. Hood County is a rural community that is experiencing tremendous growth. Hood County is located in north central Texas not far from the Dallas/Fort Worth Metroplex. Granbury is the county seat. The bank's designated AA is comprised of five census tracts, two middle- and three upper-income geographies. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income areas. Specific demographic and economic data for this area are listed below.

<b>Demographic and Economic Characteristics of Hood County Assessment Area</b>	
<b>Population</b>	
Total Population	41,100
Number of Families	12,122
Number of Households	16,135
<b>Geographies</b>	
Number of Census Tracts	5
% Low-Income Census Tracts	0.0%
% Moderate-Income Census Tracts	0.0%
% Middle-Income Census Tracts	40.0%
% Upper-Income Census Tracts	60.0%
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	\$36,380
2009 HUD-Adjusted MFI	\$45,600
<b>Economic Indicators</b>	
Unemployment Rate	2.25%
2000 Median Housing Value	\$93,730
% Households Below Poverty Level	8.96%

*Source: 2000 Census data and HUD updated income data.*

Based on 2000 U. S. Census data, the AA area has a total population of 41,100. There are 19,105 housing units in the AA, of which 69% are owner-occupied, 16% are renter-occupied and 15% are vacant. Approximately 10% of the families in the AA are considered low-income. Moderate-income families approximate 15% of the population, and middle- and upper-income families comprise 17% and 58% of the population, respectively.

Based on 2008 Business Geodemographic Data, there are 4,925 businesses in the AA, of which 66% reported gross annual revenue less than or equal to \$1 million and 3% reported gross annual revenue greater than \$1 million. Because reporting is voluntary, 31% or 1,495 businesses did not report revenues.

The economy of the AA is generally stable, but has been softening due to falling natural gas prices. New residents in the community include middle-class families relocating from the Dallas/Fort Worth Metroplex and retirees. The major attraction is the quality of life, the easy commute to and from the Metroplex, Lake Granbury, and local attractions, including historic Granbury Square, Granbury Live, and the Granbury Opera House. The workforce is primarily made of the retail trade, education, health and social service industries. Leading employers in the area include Granbury ISD, Barnett Shale drilling companies, Wal-Mart, Lake Granbury Medical Center, Hood County, Lowe's, city of Granbury, and Home Depot.

## Conclusions with Respect to Performance Tests

### LENDING TEST

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

FNB's primary business lines are commercial real estate lending and residential real estate lending. In our sample, we included these two types of lending as well as other commercial lending and consumer auto lending. 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 performance, and the AA's credit needs. 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 this area. The average LTD for FNB averaged 51% over the last 13 quarters. This ratio ranged from a quarterly low of 46% as of March 31, 2006 to a quarterly high of 54% as of September 30, 2008.

The average LTD ratio of similarly situated banks within the AA during the evaluation period was 61%. Although FNB's LTD ratio is only average when compared to local competitors, FNB reflects a willingness to provide credit in light of mitigating factors. FNB sells a significant portion of its real estate mortgage loan portfolio to secondary market investors. During the evaluation period, FNB sold \$87 million in loans. These loans, if retained, would contribute to a higher LTD ratio.

#### Lending in Assessment Area

FNB's lending in its AA reflects satisfactory performance. A substantial majority of the number and dollar amount of the loans were originated inside the bank's AA. As depicted in the table below, 85% of the number and 81% of the dollar amount of loans were originated in FNB's AA.

<b>Table 1 - Lending in Hood County AA</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	19	95%	1	5%	20	1,659	84%	314	16%	\$1,973
Residential	16	80%	4	20%	20	1,293	76%	403	24%	\$1,696
Consumer	16	80%	4	20%	20	328	86%	53	14%	\$381
Totals	51	85%	9	15%	60	3,280	81%	770	19%	\$4,050

*Source: sample of loans.*

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

The distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes, and meets the standard for satisfactory performance. To perform our analysis, we reviewed income information for 20 residential mortgage loans and 20 consumer auto loans, and revenue information for 20 commercial loans, all located within the AA. Each product type was weighted equally in this evaluation. More detail on lending performance of each of the products is discussed below.

#### *Residential Real Estate Loans*

The distribution of residential mortgage loans by income category is adequate, and meets the standard for satisfactory performance. To conduct this analysis we compared the percentage of bank loans in our sample to the percentage of families that are classified as low-, moderate-, middle-, or upper-income. Based on 2000 U. S. Census data, 10% of the families are low-income; approximately 5% of the bank's loans were to low-income families. Approximately 5% of the bank's residential mortgage loan originations were to moderate-income families where 15% of the families are considered to be moderate-income. This level of performance also reflects FNB's loan originations in conjunction with the USDA Rural Development Single Family Housing Loan Guarantee Program. During the evaluation period, FNB originated 118 loans to low- and moderate-income families in the AA totaling \$14 million. Additionally, the bank presently has 502 1-4 residential mortgage loans on its books with an original amount less than \$100 thousand, totaling \$20.212 million, for an average loan size of \$40.2 thousand.

<b>Table 2 – Borrower Distribution of Residential Real Estate Loans in Hood County AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Residential Real Estate Loans	10.26	5.00	14.67	5.00	17.40	15.00	57.67	70.00

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

*Commercial Loans*

FNB demonstrated an excellent level of lending to businesses of different sizes. For this analysis we compared the percentage of loans to small businesses (businesses with revenues less than or equal to \$1 million) to the percentage of businesses in the AA that are classified as small businesses. Within our sample of commercial loans, 75% of the number and 94% of the dollar volume of loans were originated to small businesses. This level exceeds the demographic comparator where 66% of the businesses within the AA are classified as small businesses.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Hood County AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	65.97	2.67	31.36	100%
% of Bank Loans in AA by #	75.00	5.00	20.00	100%
% of Bank Loans in AA by \$	94.30	2.20	3.50	100%

Source: Loan sample; Dunn and Bradstreet data.

*Consumer Loans*

The distribution of consumer loans by income category is adequate. To conduct this analysis we compared the percentage of bank loans to the percentage of households that are classified low-, moderate-, middle-, and upper-income. Based on 2000 U.S. Census data, 22% of the households in the AA are low-income; approximately 10% of the bank's consumer loan originations in our sample were to low-income households. Approximately 10% of the bank's consumer loans in our sample were originated to moderate-income households where 19% of the households are considered to be moderate-income.

During the evaluation period, 825 loans with an original amount of \$1 thousand or less were originated, totaling \$609 thousand. The bank has no minimum loan amount in policy or practice. This is another indicator of the bank's willingness to meet the credit needs of its AA.

<b>Table 2B - Borrower Distribution of Consumer Loans in Hood County AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	21.91	10.00	19.16	10.00	21.37	15.00	37.56	50.00

*Source: loan sample or data collected by the bank; 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**

There have been no consumer complaints relating to FNB's CRA performance during the evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

FNB's performance under the Community Development Test is "**Satisfactory**".

FNB demonstrates adequate responsiveness to the needs of its AA through qualified investments and CD services, considering the institution's capacity and the need and availability of such opportunities in the AA.

### **Number and Amount of Community Development Loans**

FNB originated one (1) CD loan during this evaluation period in the amount of \$392 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.

### **Number and Amount of Qualified Investments**

A single donation to the Texas Mezzanine Fund (TMF) accounts for 34% of the bank's total qualified investments. FNB's investment totals \$250 thousand. TMF, established in 1999, is a statewide Community Development Financial Institution that provides financing for businesses located in distressed areas, women- or minority-owned businesses, and small businesses that create jobs for LMI people. TMF also provides financing for for-profit and nonprofit developers of single- and multi-family affordable housing for families, senior citizens, and households with special needs. Further, TMF provides loans for neighborhood community facilities. To date, TMF has not financed any projects within the bank's AA.

Other qualified investments (11) totaling \$102 thousand, include donations and contributions to CD organizations that provide services and activities that impact LMI individuals and promote economic development.

### **Community Development Services/Responsiveness to Community Development Needs**

FNB's CD services reflect adequate responsiveness to the needs and opportunities in the AA. Service delivery systems are reasonably accessible to geographies and individuals of different income levels in the AA. Business hours and services are convenient and are accessible to all segments of the AA.

The branch system is the primary delivery system for retail banking services and is supplemented by 8 ATMs, one of which is located in a convenience store. Branch penetration is adequate when compared with the percentage of the population at each income level. Based on 2000 Census data, 29% of the bank's branches and 25% of the ATMs are located in middle-income geographies that contain 32% of the population; 71% of the branches and 75% of the ATMs are located in upper-income geographies where 68% of the population resides. The bank offers other alternative delivery systems including telephone banking, ATM/Debit cards, and Internet banking.

Banking hours provide adequate accessibility throughout the AA. All locations maintain standard banking hours Monday through Friday with extended lobby hours on Friday. The Kroger food store branch is open until 7 p.m. Monday through Friday and until 3 p.m. on Saturday. FNB provides teller services to a retirement community twice a week and supports children's savings program in three local elementary schools. All motor bank locations offer extended evening and weekend hours. These services enhance the accessibility of the branches.

An adequate range of deposit and loan products and business services are available at all FNB branch locations. Products and services are responsive to banking needs within the AA and do not vary in a way that inconveniences any portion of the AA, or any group of individuals, particularly LMI individuals. While FNB does not offer any products or services that are solely targeted to LMI individuals, the bank does offer a low-cost checking account and does not require a minimum loan amount of applicants applying for credit.

The volume and responsiveness of the bank's community development services is adequate. Qualified services focus on volunteer activities within the community. In advisory capacities, FNB officers and employees serve various community development organizations that benefit LMI individuals and families.

## **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.