



PUBLIC DISCLOSURE

June 12, 2017

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:

- The average quarterly loan-to-deposit (LTD) ratio is reasonable.
- A majority of FNB's loans were originated within the assessment area (AA).
- FNB has a reasonable penetration to borrowers of various income levels and businesses of different sizes.
- FNB's geographic distribution of loans reflects a reasonable dispersion throughout the AA.
- 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 CD Test evaluates a bank's CD lending, qualified investments, and services.

The evaluation under the Lending Test covers loans originated between January 1, 2015 and December 31, 2016. Performance under the Lending Test was assessed based on a review of FNB's commercial loans (including accounts receivable and working capital loans), 1-4 Family residential loans (1st lien), and consumer loans. Our review included a sample of 24 commercial and 23 consumer loans that were originated during the evaluation period and a review all loans reported on the 2015 and 2016 Home Mortgage Disclosure Act (HMDA) Loan Application Registers (LARs). This review period was used as FNB became a HMDA reported in 2015. CD activities were evaluated over the period from June 9, 2014 to June 12, 2017.

We used 2010 Census data for our evaluation of the distribution of loans, and utilized the demographics and geographies related to the 2010 Census.

We verified the accuracy of the data we relied on in this evaluation through a data integrity examination performed prior to our review. Our evaluation is based on accurate data. We verified CD loans and 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, affiliated 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 to two senior living facilities. The bank also has a Loan Production Office in Weatherford and 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. FNB has eight Automatic-Teller-Machines (ATMs). 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 closed one branch and opened another during this evaluation period. A FNB branch located in a Kroger grocery store was closed as the Kroger store relocated to another location that had no space available for a bank branch. The bank also opened a branch in Cleburne (Johnson County) in April 2017. 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 traditional credit products and deposit account options. As of March 31, 2017, the bank's total assets were \$546 million, total loans were \$293 million, and total deposits were \$498 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, 2017:

Loan Portfolio Composition as of March 31, 2017		
Loan Category	\$(000)	%
Residential Real Estate	153,844	52.0
Nonfarm Nonresidential RE	42,727	14.4
Construction & Development RE	34,299	11.6
Commercial & Industrial	26,420	8.9
Farm loans and Agriculture RE	20,182	6.8
Consumer & Other	18,343	6.2
<i>Total</i>	\$295,815	100.00

Source: March 31, 2017 Report of Condition

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

Banking competition is aggressive in the AA 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 June 9, 2014.

Description of Assessment Area

FNB's AA consists of Hood and Johnson counties; however, Johnson County was not added to the AA until the Cleburne branch opened in April 2017. Hood County consists of ten census tracts (CTs). Two of the tracts are moderate-income, six are middle-income, and two are upper-income. There are no low-income CTs in Hood County. Johnson County is comprised of 28 CTs. One tract is low-income, seven are moderate-income, 15 are middle-income, and five are upper-income. The AA meets the requirements of the CRA regulation, does not arbitrarily exclude LMI geographies, and includes only those portions of political subdivisions that FNB can reasonably be expected to serve.

According to the June 30, 2016 FDIC Deposit Market Share Report, 22 financial institutions operate 61 offices within Hood and Johnson Counties. FNB dominates the market share with 17.29% of deposits. First Financial Bank is second with 15.08%. Other significant competitors include Wells Fargo Bank with 14.01%, Northstar Bank of Texas with 10.88%, and Pinnacle Bank with 9.9%; 23 other financial institutions make up the remaining 32.8%% of the market share.

Hood County is one of 254 counties in the state of Texas. It is located 15 miles southwest of Fort Worth. Hood County continues to experience growth as a bedroom

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 (June 9, 2014) and goes to the date of the current CRA evaluation (June 12, 2017).

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 CD lending activity reflects adequate responsiveness.

FNB has two CD loans as of this evaluation with outstanding balances of \$1.095 million. These loans are to the Senior Housing Crime Prevention Foundation with the purpose of providing secure senior living environments in the AA, and to the Hood County Committee on Aging with the purpose of providing 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 these organizations 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, qualified investments indicated excellent responsiveness. FNB has six qualified investments totaling \$6.75 million representing 11% of the bank's capital committed and \$2.7 million outstanding as of this evaluation. FNB also had charitable donations during the evaluation period totaling \$19.8 thousand.

The bank has joined a program called Homebuyer Equity Leverage Partnership (HELP) through the Federal Home Loan Bank of Dallas. The program provides funds for affordable housing for LMI individuals and the bank has contributed \$8 thousand to the program since January 2017.