



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 13, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Gilmer National Bank
Charter Number 5741**

**900 North Wood Street
Gilmer, TX 75644**

**Comptroller of the Currency
Longview Field Office
1800 West Loop 281 Suite 306
Longview, TX 75604**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

Gilmer National Bank has a satisfactory record of meeting community credit needs. This rating is based on the following:

- The bank's loan-to-deposit ratio is reasonable when compared to other area banks.
- A majority of the bank's loans are extended within its assessment area.
- Credit activity is reasonably distributed to borrowers of different income levels.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

DESCRIPTION OF INSTITUTION

Gilmer National Bank is a \$158 million institution which is wholly owned by Gilmer National Bancshares, a one bank holding company, and is located at 900 North Wood, Gilmer, Texas. The bank does not have any branches. The bank operates an Automatic Teller Machine (ATM) at its main office and at Holly Mart Chevron located at FM 289 and CR 3920 in Hawkins, Texas. The bank offers a variety of loan and deposit products. As of June 30, 2002, loans totaled \$79 million and represented 49.02% of the bank's total assets. The following chart reflects the distribution of the bank's loan portfolio.

| Loan Category | \$ (000) | % |
|-------------------------------|-----------------|-------------|
| Commercial Real Estate Loans | 7,426 | 9.43% |
| Commercial Loans | 17,912 | 22.75% |
| Residential Real Estate Loans | 22,750 | 28.88% |
| Consumer Loans | 30,661 | 38.94% |
| Total | 78,749 | 100% |

There are no legal impediments or other factors which inhibit the bank's ability to meet the credit needs of the community. The bank was rated satisfactory during the prior CRA Examination dated June 22, 1998.

DESCRIPTION OF THE ASSESSMENT AREA

The Board has designated Upshur County and the Southeast portion of Wood County as the bank's assessment area. The designated assessment area is part of the Longview-Marshall Metropolitan Statistical Area (MSA). The assessment area includes one moderate-income BNA, and seven middle-income BNAs. The assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude moderate-income geographies. The designated assessment area includes Block Numbering Areas (BNA) 9501, 9502, 9503, 9504, 9505, 9506, 9507.98 in Upshur County and BNA 9506 in Wood County. These BNAs include the communities of Gilmer, Ore City, Bettie, Big Sandy, Gladewater, Union Grove, East Mountain, Warren City, Hawkins (Holly Lake area), and Hainesville. The following table provides a description of the assessment area based on census data and 2001 Department of Housing and Urban Development (HUD) information.

| DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA | |
|---|--------|
| <i>Population</i> | |
| Number of Families | 10,211 |
| Number of Households | 13,154 |
| <i>Geographies</i> | |
| Number of Census Tracts/BNA | 8 |
| % Low-Income Census Tracts/BNA | 0% |
| % Moderate-Income Census Tracts/BNA | 12.50% |
| % Middle-Income Census Tracts/BNA | 87.50% |
| % Upper-Income Census Tracts/BNA | 0% |
| <i>Median Family Income (MFI)</i> | |
| 1990 MFI for AA | 26,224 |
| 1990 HUD-Adjusted MFI | 28,122 |
| 2001 Updated HUD-Adjusted MFI | 40,788 |
| <i>Economic Indicators</i> | |
| Unemployment Rate | 3.53% |
| 2001 Median Housing Value | 43,239 |
| % of Households Below Poverty Level | 18.79 |

The designated assessment area has a total population of 31,370. Only 12.50% of all families live in moderate-income BNAs, and 87.50% live in middle-income BNAs. The distribution of families by income level consists of the following: 24.24% are low income; 17.79% are moderate income, 22.05% are middle income, and 35.91% are upper income.

Major employers in the area include Rob Roy Industries, City of Gilmer, Wal-Mart Supercenter, and Gilmer Potteries. Competition within the assessment area is moderate with several financial institutions. The local economy is considered stable with an unemployment rate of 3.51%. Contacts with a local Economic Development Official and realtor revealed the primary community credit needs for the area are residential mortgages and consumer loans.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio of Gilmer National Bank is reasonable given the bank's size, financial condition, and assessment of area credit needs. The bank's quarterly average loan-to-deposit ratio was 51.41% since the prior CRA examination in June 1998. The average loan-to-deposit ratio of banks within the assessment area for the same period was 60.82%. The quarterly average loan-to-deposit ratio for each bank in the assessment area is listed below.

| Institution | Assets (as of 03/31/02) | Average LTD Ratio |
|-------------------------------|--------------------------------|--------------------------|
| First National Bank of Gilmer | 187,097 | 60.02% |
| Security State Bank, Ore City | 47,440 | 66.66% |
| First State Bank of Hawkins | 33,618 | 65.20% |
| | | |
| Gilmer National Bank | <i>158,175</i> | <i>51.41%</i> |

Lending in Assessment Area

A majority of the bank's lending activity is located within the assessment area. We reviewed a sample of 45 residential mortgages, 40 consumer loans, and 22 commercial loans made since the prior examination. This sample revealed that approximately 85.05% of the number of loans and 93.74% of the dollar amount of loans in our sample were extended within the bank's assessment area. The breakdown by loan category is illustrated in the following table.

| TOTAL LOANS REVIEWED | | | | | | | | |
|-----------------------------|--------------------|-------|-----------|-------|------------------------|-------|-----------|-------|
| LOAN TYPE | IN ASSESSMENT AREA | | | | OUT OF ASSESSMENT AREA | | | |
| | # | % | \$ (000s) | % | # | % | \$ (000s) | % |
| 1-4 Family Dwelling | 38 | 84.44 | 1,715 | 88.13 | 7 | 15.56 | 231 | 11.87 |
| Consumer | 32 | 80.00 | 442 | 93.64 | 8 | 20.00 | 30 | 6.36 |
| Commercial | 21 | 95.45 | 3,010 | 97.29 | 1 | 4.55 | 84 | 2.71 |
| Total Reviewed | 91 | 85.05 | 5,167 | 93.74 | 16 | 14.95 | 345 | 6.26 |

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

The distribution of loans within the assessment area reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes. Our sample of loans in the assessment area included 38 residential mortgages totaling \$1,715M and 32 consumer loans totaling \$442M. The distribution of home purchase loans generally approximates the income characteristics of the assessment area. While lending to low income borrowers for residential purposes is lower than the demographics of the assessment area, 19% of the assessment area families are below poverty level. The bank has received only 14 applications for 1-4 family home loans from low-income borrowers since the prior CRA examination. Of these applications received, the bank has approved 79%. Additionally, there is a lack of affordable housing

available in the assessment area. The bank's distribution to moderate-income families more closely matches the demographics of the assessment area. Additionally, the bank's consumer lending reflects a reasonable distribution to all income levels. The following table reflects the results of our analysis.

| RESIDENTIAL REAL ESTATE | | | | | | | | |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Borrower Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Families | 24.24% | | 17.79% | | 22.05% | | 35.91% | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| LOANS FOR YEARS 1998-YTD 2002 | 5.26 | .58 | 31.58 | 18.95 | 21.05 | 19.42 | 42.11 | 61.05 |

| CONSUMER | | | | | | | | |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Borrower Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Households | 27.49 | | 15.17 | | 18.54 | | 38.80 | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| LOANS FOR YEARS 1998-YTD 2002 | 62.50 | 57.41 | 18.75 | 20.94 | 12.50 | 18.82 | 6.25 | 2.82 |

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on the U.S. Census information, there are 1,220 businesses in the assessment area with revenues less than \$1 million. This number represents 89.18% of all businesses within the assessment area. Our sample of commercial loans in the assessment area included 21 loans. The table below reflects the bank's lending distribution among large and small businesses within the assessment area.

| BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES | | |
|---|--------------|--------------|
| Business Revenues | ≤\$1,000,000 | >\$1,000,000 |
| % of AA Businesses | 89.18% | 5.04% |
| % of Bank Loans in AA # | 90.00% | 10.00% |
| % of Bank Loans in AA \$ | 75.25% | 24.75% |

The remaining 5.77% represents revenues not reported.

Geographic Distribution of Loans

The distribution of loans reflects a reasonable penetration throughout the assessment area given the bank's overall business strategy and locations. The following charts indicate a reasonable penetration of loans to individuals in moderate-income level tracts.

| RESIDENTIAL REAL ESTATE | | | | | | | | |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Census Tract Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Owner Occupied | 0% | | 8.70% | | 91.30% | | 0% | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| LOANS FOR YEARS 1998-YTD 2002 | 0 | 0 | 15.79 | 11.60 | 84.21 | 88.40 | 0 | 0 |

| CONSUMER | | | | | | | | |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Census Tract Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Households | 0% | | 8.10% | | 91.9% | | 0% | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| LOANS FOR YEARS 1998-YTD 2002 | 0 | 0 | 21.88 | 13.88 | 78.13 | 86.12 | 0 | 0 |

| BUSINESS LOANS | | | | | | | | |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Census Tract Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Businesses | 0% | | 0% | | 100% | | 0% | |
| LOANS BY YEAR | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| LOANS FOR YEARS 1998-YTD 2002 | 0 | 0 | 5.00% | 18.35% | 95.00% | 81.65% | 0 | 0 |

The geographic distribution of business loans is reasonable based on the bank's locations and the demographics of each area. The bank is lending to businesses in moderate-income areas that were not identified as a business in the demographic data used for comparisons.

Responses to Complaints

Management has not received any written complaints related to CRA performance.

Fair Lending Review

An analysis of 2001 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1998.