



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

August 20, 2007

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.

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 based on the bank's performance context and lending opportunities within its assessment area.
- A substantial majority of the bank's loans are extended within the bank's assessment area.
- The distribution of loans demonstrates an excellent penetration among borrowers of different income levels and businesses of different sizes.

SCOPE OF EXAMINATION

This Performance Evaluation (PE) is an assessment of Gilmer National Bank's efforts to meet the credit needs of the communities in which it operates. The bank was evaluated under the Small Bank performance criteria. Conclusions regarding the bank's lending performance are based on consumer, residential real estate, and commercial loans originated from August 13, 2002 to August 20, 2007.

DESCRIPTION OF INSTITUTION

Gilmer National Bank (GNB) is a \$186 million bank with its only office located at 900 North Wood Street, Gilmer, Texas. GNB is wholly owned by Gilmer National Bancshares. The bank offers a full range of loan and deposit products. There are no legal impediments or other factors that inhibit the bank's ability to meet the credit needs of the community. The bank was rated satisfactory during the prior CRA examination dated August 13, 2002. The following chart reflects the distribution of the bank's loan portfolio as of June 30, 2007.

Loan Category	\$ (000)	%
Consumer Loans	\$30,863	34.58%
Commercial Loans	\$23,832	26.71%
Real Estate Loans	\$22,330	25.02%
Agriculture Loans	\$12,214	13.69%
Total	\$89,239	100.00%

DESCRIPTION OF ASSESSMENT AREA(S)

Management has designated Upshur County as the bank's assessment area, which includes seven census tracts. The bank's assessment area is part of the Longview Texas Metropolitan Statistical Area (MSA). The entire assessment area has been identified as having only middle income tracts. Refer to the bank's Public File for details on the specific census tract numbers. The following cities are included in the assessment area: Gilmer, Big Sandy, Ore City, Diana, and a portion of Gladewater. The following table provides a description of the assessment area based on 2000 census data and 2006 Department of Housing and Urban Development (HUD) information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	9,996
Number of Households	13,296
<i>Geographies</i>	
Number of Census Tracts/BNA	7
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	100%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$40,970
2006 HUD-Adjusted MFI	\$48,500
<i>Economic Indicators</i>	
Unemployment Rate	2.30%
2000 Median Housing Value	\$56,336
% of Households Below Poverty Level	15.19%

Gilmer National Bank's designated assessment area has a total population of 35,291. The distribution of families by income level consists of the following: 20.99% low income, 19.30% moderate income, 24.81% middle income, and 34.90% upper income. Competition is moderate with several banks and financial institutions located throughout the assessment area. The local economy is stable with an unemployment rate of 2.30%. Major employers in the assessment area include: Strategic Fulfillment, Rob Roy Industries, and Gilmer Potteries. Contacts with local government offices and business leaders revealed that banks are providing sufficient products and services to meet the credit needs within the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Management has demonstrated satisfactory performance in meeting the credit needs of the community. The following sections provide details of our assessment for each performance criteria.

Loan-to-Deposit Ratio

The loan-to-deposit ratio of Gilmer National Bank (GNB) is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's loan-to-deposit ratio is comparable to other banks headquartered in the assessment area. GNB's loan-to-deposit ratio has averaged 54.07% since the prior CRA examination. The average loan-to-deposit ratio of banks within the assessment area regardless of size, for the same time period is 59.97%. The quarterly average loan-to-deposit ratio for each bank in the assessment area is listed below.

Institution	Assets (000s) (as of 6/30/07)	Average LTD Ratio
Gilmer National Bank	\$186,113	54.07%
Bank Texas, NA	\$154,827	71.84%
Security State Bank, NA	\$48,210	60.37%
First National Bank of Gilmer	\$184,580	59.69%
Wood County National Bank	\$60,655	53.85%

Lending in Assessment Area

A substantial majority of the bank's lending activity is located within the assessment area. Our review focused on the bank's primary product lines that include consumer loans, commercial loans, and residential real estate loans. We reviewed a sample of 32 consumer loans and 23 commercial loans. Additionally, we reviewed all residential real estate loans that were reported under HMDA during 2003 through 2006. The aggregate sample revealed approximately 85% of the number of loans and 79% of the dollar amount of loans were extended in the banks assessment area. The breakdown by loan category is illustrated in the following table:

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	269	87.34	39	12.66	308	12,617	79.40	3,274	20.60	15,891
Consumer	21	65.63	11	34.38	32	217	68.89	98	31.11	315
Business	20	86.96	3	13.04	23	1,247	85.65	209	4.35	1,456
Totals	310	85.40	53	14.60	363	14,081	79.72	3,581	20.28	17,662

Source: Data reported under HMDA, loan sample.

Lending to Borrowers of Different Incomes and to Businesses of Different

Sizes

The distribution of loans within the assessment area reflects an excellent penetration among borrowers of different income levels and businesses of different sizes. Our sample of loans in the assessment area included all loans reported under HMDA during 2003 through 2006. This sample included 269 residential real estate loans totaling \$12.6 million. Additionally, we also reviewed 21 consumer loans totaling \$217 thousand. The distribution of residential real estate loans reflects an excellent penetration among borrowers of different incomes. Refer to the following chart for details

Borrower Distribution of Residential Real Estate Loans								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families ¹	20.99%		19.30%		24.81%		34.90%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	11.15%	6.97%	22.31%	15.98%	32.34%	28.63%	34.20%	48.42%

Source: Data reported under HMDA; U.S. Census data.

The distribution of consumer loans reflects an excellent penetration among borrowers of different incomes. Refer to the following chart for details.

Borrower Distribution of Consumer Loans								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households ²	24.77%		15.96%		19.77%		39.50%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	33.33%	10.14%	23.81%	17.05%	28.57%	27.65%	14.29%	45.16%

Source: Loan Sample; U.S. Census data.

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on data obtained from Dun & Bradstreet, the assessment area contains 2,573 non-farm businesses. However, revenue information was not reported for approximately 47% of the businesses in the assessment area. As a result, the percentage of businesses by income level may not accurately reflect the true percentage of businesses in each income category. Our sample of business loans inside the assessment area revealed a majority of the bank's businesses loans were to businesses with revenues less than \$1 million. Refer to the following chart for details.

Borrower Distribution of Loans to Businesses Upshur County				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	50.25%	2.06%	47.69%	100%
% of Bank Loans in AA by #	65.00%	35.00%	0.00%	100%
% of Bank Loans in AA by \$	22.77%	77.23%	0.00%	100%

Source: Loan sample; Dun and Bradstreet data.

Geographic Distribution of Loans

A geographic analysis of lending activity was not performed. There are no low or moderate income geographies located in the assessment area, therefore an analysis would not be meaningful.

Responses to Complaints

Gilmer National Bank has not received any CRA related complaints during the assessment 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.