



PUBLIC DISCLOSURE

August 11, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Gilmer
Charter Number 5288

201 North Wood Street
Gilmer, TX 75644

Office of the Comptroller of the Currency

1800 NW Loop 281
Suite 306
Longview, TX 75604-2516

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

- The bank's loan-to-deposit ratio is more than reasonable based on the bank's performance context and lending opportunities.
- A majority of the loans sampled, approximately 73 percent by number and 72 percent by dollar amount, was originated within the bank's assessment area.
- The distribution of loans within the assessment area reflects a reasonable penetration among borrowers of different income levels.

SCOPE OF EXAMINATION

This Performance Evaluation (PE) is an assessment of FNB's ability 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 Home Mortgage Data Act (HMDA) information and a sample of commercial and consumer installment loans originated from January 1, 2012 to December 31, 2013. Our sample included 20 commercial loans and 40 consumer loans. We also performed a data integrity review of the bank's HMDA information.

DESCRIPTION OF INSTITUTION

The First National Bank of Gilmer is a \$320 million bank owned by First Gilmer Bancshares, Inc., a bank holding company that is wholly owned by First Gilmer Delaware, Limited. Former bank subsidiaries of First Gilmer Bancshares, Inc., Wood County National Bank, located in Quitman, Texas merged into FNB as of December 31, 2011 and Security State Bank N.A., which is located in Ore City, Texas merged with FNB as of December 31, 2013. The main office of The First National Bank of Gilmer is located at 201 North Wood Street, Gilmer, Texas. The bank has nine full service locations (all in Texas); the main office in Gilmer, along with branches that are located in Big Sandy, Pittsburg, Mount Vernon, Quitman, Mineola, Emory, Ore City, and Diana. The bank also has a deposit branch in Wal-Mart in Gilmer. Automated teller machines (ATMs) are available in all locations. As of March 31, 2014, the bank's loan portfolio totaled \$207 million. FNB's business strategy is to offer a full range of banking services to the communities it serves.

The following table provides information on the breakdown of the bank's loan portfolio by loan type:

LOAN CATEGORY	\$(000)	%
Real Estate Loans	\$139,594	67.37%
Commercial Loans	\$32,313	15.60%
Individual Loans	\$22,491	10.86%
Agricultural Loans	\$12,785	6.17%
Total	\$207,183	100.00%

There are no legal impediments or other factors that inhibit the bank's ability to meet the credit needs of the community. The previous examination date for this bank's prior CRA evaluation was September 7, 2010 at which time the bank received a satisfactory rating.

DESCRIPTION OF ASSESSMENT AREA(S)

UPSHUR COUNTY ASSESSMENT AREA

This assessment area (AA) is located in the Longview Metropolitan Statistical Area (MSA). It is comprised of the entire county of Upshur. Included in the AA are the communities of Gilmer, Big Sandy, Ore City and Gladewater. There are seven census tracts within Upshur County. The census tracts consist of six middle-income tracts and one upper-income tract. The AA meets the requirements of the regulation and does not arbitrarily exclude any low or moderate-income areas. The table below summarizes the AA's demographic information:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF UPSHUR COUNTY ASSESSMENT AREA	
<i>Population</i>	
Number of Families	10,670
Number of Households	14,668
<i>Geographies</i>	
Number of Census Tracts	7
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	0.00%
% Middle-Income Census Tracts	85.71%
% Upper-Income Census Tracts	14.29%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$53,820
2013 HUD-Adjusted MFI	\$54,200
<i>Economic Indicators</i>	
Unemployment Rate	4.00%
2010 Median Housing Value	\$87,044
% of Households Below Poverty Level	13.31%

Source: 2010 Census Data

The population of Upshur County is 39,309. The distribution of families by income level consists of the following: 20.54 percent are low income, 18.90 percent are moderate income, 21.69 percent are middle income, and 38.87 percent are upper income. The bank faces considerable competition from other local banks and branches of financial institutions within the AA. Primary employers for the AA include Gilmer Independent School District, Upshur County and Strategic Fulfillment Group; however, the local Industrial Foundation noted that Upshur County is primarily a commuter county with most residents commuting to nearby areas for employment. Primary credit needs are for residential and consumer loans within the AA. Local economic conditions are stable. Updated 2013 information from the U.S. Bureau of Labor Statistics revealed that an unemployment rate for the AA has moderated to 4.0 percent. The

smaller businesses in the area are mostly service oriented and have had no significant impact from the slow recovery in the national economy.

FRANKLIN, CAMP, RAINS AND WOOD COUNTY ASSESSMENT AREA

This AA is comprised of the four complete and contiguous counties of Franklin, Camp, Rains, and Wood. Included in these counties are the communities of Pittsburg, Leesburg, Mount Vernon, Scroggins, Quitman, Emory, Hawkins, Mineola, Alba and Winnsboro. The AA expanded with the merger of FNB with Wood County National Bank located in Quitman, Texas. There are seventeen census tracts within these counties. The census tracts consist of fifteen middle-income and two upper-income tracts. The AA does not arbitrarily exclude any low or moderate-income areas. The table below summarizes the AA's demographic information:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF FRANKLIN, CAMP, RAINS & WOOD COUNTY ASSESSMENT AREA	
<i>Population</i>	
Number of Families	19,509
Number of Households	26,642
<i>Geographies</i>	
Number of Census Tracts	17
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	0.00%
% Middle-Income Census Tracts	88.24%
% Upper-Income Census Tracts	11.76%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$50,834
2013 HUD-Adjusted MFI	\$50,500
<i>Economic Indicators</i>	
Unemployment Rate	4.42%
2010 Median Housing Value	\$95,499
% of Households Below Poverty Level	13.70%

Source: 2010 Census Data

The combined population of the four counties was 71,059. The distribution of families by income level consists of the following: 17.40 percent are low income, 18.75 percent are moderate income, 21.36 percent are middle income, and 42.49 percent are upper income. The bank faces considerable competition from other local financial institutions within the AA. Primary employers for the AA include Pilgrim's Pride, Lowe's Distribution Center and the education and medical fields for the different counties. Contact with a local government office revealed that primary credit needs for the area are business loans. Local economic conditions are stable. Updated 2013 information from the US Bureau of Labor Statistics revealed that unemployment rates have moderated to 4.42 percent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB's performance under the lending test is satisfactory. The bank has demonstrated satisfactory performance in meeting the credit needs of the community. All performance criteria of the lending test are documented below.

Loan-to-Deposit Ratio

The loan-to-deposit ratio of FNB is more than reasonable given the bank's size, financial condition and assessment area credit needs. The bank's quarterly average loan-to-deposit ratio was 70.64 percent since the prior CRA examination in September 2010. The average quarterly loan-to-deposit ratio of all banks within the assessment area for the same timeframe was 65.74 percent.

Institution	Assets (000s) as of 3/31/2014	Average LTD ratio
Cypress Bank, SSB, Pittsburg, TX	\$175,789	87.32%
First National Bank of Winnsboro, Winnsboro, TX	\$137,068	76.42%
Mineola Community Bank, SSB, Mineola, TX	\$165,559	70.67%
The First National Bank of Gilmer, Gilmer, TX	\$320,533	70.64%
Bank Texas, N. A. Quitman, Texas	\$479,717	68.90%
Gilmer National Bank, Gilmer, TX	\$216,672	67.36%
Pilgrim Bank, Pittsburg, TX	\$392,910	66.46%
The First National Bank of Mount Vernon, Mount Vernon, TX	\$201,252	46.27%
The First National Bank of Emory, Emory, TX	\$111,155	42.55%

Lending in Assessment Area

A majority FNB's lending activity originated inside the AA. By number, 73 percent of the loans, and by dollar, 72 percent of the loans originated within the AA. The breakdown by loan category is illustrated in the following table:

Lending in FNB's AAs										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	120	68.57	55	31.43	175	12,765	65.83	6,625	34.17	19,390
Home Improvement	19	86.36	3	13.64	22	1,693	94.42	100	5.58	1,793
Refinance	118	75.64	38	24.36	156	15,583	74.93	5,214	25.07	20,797
Consumer	26	65.00	14	35.00	40	360	50.99	346	49.01	706
Commercial	17	85.00	3	15.00	20	1,114	88.78	141	11.22	1,255
Totals	300	72.64	113	27.36	413	31,515	71.72	12,426	28.28	43,941

Source: 2012 and 2013 HMDA LAR, loan sample

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

The distribution of loans within the overall assessment area reflects a reasonable penetration among borrowers of different income levels.

Upshur Assessment Area

The distribution of loans to borrowers of different incomes is reasonable throughout the assessment area. Loans to consumers and loans to businesses both have excellent penetration to different income levels. The level of residential real estate lending to moderate-income borrowers is equal to or just below the percentage of assessment area families. The level of residential real estate lending to low-income borrowers is below the percentage of assessment area families. Thirteen percent of assessment area households are below the poverty level. The median cost of housing is \$87 thousand where a low-income person earns less than \$27 thousand a year based on HUD updated 2010 median family income information. The reasonable distribution of residential real estate loans is reflective of the aforementioned mitigating factors.

Borrower Distribution of Residential Real Estate Loans in Upshur AA								
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
Home Purchase	20.54	13.33	18.90	18.67	21.69	16.00	38.87	50.67
Home Improvement	20.54	7.69	18.90	7.69	21.69	23.08	38.87	61.54
Refinance	20.54	4.65	18.90	16.28	21.69	19.77	38.87	59.30

Source: Data reported under HMDA; U.S. Census data. NA for 1.33 percent of Home Purchase Loans

Borrower Distribution of Loans to Businesses in Upshur AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	79.08	2.26	18.66	100%
% of Bank Loans in AA by #	95.00	5.00	0.00	100%
% of Bank Loans in AA by \$	93.35	6.65	0.00	100%

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

Borrower Distribution of Consumer Loans in Upshur AA								
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	23.89	40.00	15.15	15.00	19.19	15.00	41.77	30.00

Source: Loan sample; U.S. Census data

Camp, Franklin, Rains and Wood Assessment Area

The distribution of loans to borrowers of different incomes is reasonable throughout the assessment area. Loans to consumers and loans to businesses have excellent penetration to the different level of incomes. The low penetration of residential real estate loans to low and moderate income families is mitigated by the high level of competition in this assessment. In

addition, 14 percent of assessment area households are below the poverty level, thus making it difficult to qualify for a real estate loan.

Borrower Distribution of Residential Real Estate Loans in Camp, Franklin, Rains, Wood AA								
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
Home Purchase	17.40	6.85	18.75	12.33	21.36	26.03	42.49	47.95
Home Improvement	17.40	10.00	18.75	10.00	21.36	30.00	42.49	50.00
Refinance	17.40	0.00	18.75	16.07	21.36	10.71	42.49	69.64

Source: Data reported under HMDA; U.S. Census data. NA for 6.85 percent of Home Purchase Loans and 3.57 percent of Refinanced Loans

Borrower Distribution of Loans to Businesses in Camp, Franklin, Rains, Wood AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	76.44	2.29	21.27	100%
% of Bank Loans in AA by #	85.00	15.00	0.00	100%
% of Bank Loans in AA by \$	95.72	4.28	0.00	100%

Source: Loan sample; U.S. Census data

Borrower Distribution of Consumer Loans in Camp, Franklin, Rains, Wood AA								
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	20.01	47.62	18.02	23.81	18.44	28.57	43.53	0.00

Source: Loan sample; U.S. Census data

Geographic Distribution of Loans

A geographic distribution analysis would not be meaningful because there are no low or moderate-income tracts within either assessment area.

Responses to Complaints

FNB has not received any complaints related to CRA during the assessment period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or C.F.R. 195.28(c), in determining a national bank's (bank) or federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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