



PUBLIC DISCLOSURE

January 22, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Gilmer National Bank
Charter Number 5741

713 U.S. Highway 271 North
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, and should not 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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Overall CRA Rating

The Lending Test is rated: Satisfactory.

- The bank has a reasonable loan-to-deposit ratio when compared to peer banks.
- A substantial majority of the bank's primary loan products are extended within the assessment area.
- The distribution of loans represents reasonable penetration among borrowers of different income levels and businesses of different sizes given the performance context in which the bank operates.
- There were no CRA related complaints.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor

vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Description of Institution

Gilmer National Bank (GNB) is a \$218 million single state institution wholly owned by Gilmer National Bancshares, Incorporated, a single bank holding company. The bank serves Upshur County, TX, and operates from one location at 713 US Highway 271 North, Gilmer, TX. A drive-through facility and an automated teller machine are maintained at the location.

The bank is a full service institution and offers a variety of traditional loan and deposit products, and financial services. Consumer, commercial, and residential real estate loans are the bank's primary business focus, with agricultural loans comprising a small portion of the loan portfolio.

There are no legal, financial or other factors impeding the bank's ability to meet the credit needs of its assessment area (AA). The bank's CRA performance was previously evaluated as of December 10, 2012, with an overall level of performance of "Satisfactory" under the Small Bank examination procedures.

Scope of the Evaluation

Evaluation Period/Products Evaluated

This Performance Evaluation (PE) is an assessment of GNB's ability to meet the credit needs of the communities in which it operates. The bank was evaluated under the Small Bank performance criteria. The examination included an evaluation of one AA that included all census tracts in Upshur County, which is part of the Longview Metropolitan Statistical Area. Conclusions regarding the bank's lending performance are based on a review of primary loan products, and include residential home purchase, residential improvement, residential refinance, consumer, and commercial loans originated from January 1, 2015, through December 31, 2016.

Data Integrity

Prior to this CRA examination, OCC personnel verified the accuracy of data available to the public in accordance with the HMDA and the CRA regulation. This public data included HMDA-reportable lending from January 1, 2015, through December 31, 2016. The agency originally concluded the 2015 HMDA data consisted of errors in every sampled loan, resulting in unreliable data. The bank corrected all data, and the corrected data was refiled. OCC personnel also verified 2016 data in conjunction with the follow-up of the corrected 2015 data, and concluded the HMDA data was reliable. This evaluation is based on accurate publicly reported data.

Selection of Areas for Full-Scope Review

We performed a full-scope review on the Upshur County AA. Please refer to the table in Appendix A for more information.

Ratings

The bank's overall rating is based primarily on those areas that received full-scope reviews. Consumer loans represented 29.14 percent of the loan products by dollar amount and 75.38 percent by number. Commercial loans represented 25.78 percent by dollar amount and 9.87 percent by number. Residential real estate loans represented 24.66 percent by dollar amount and 6.15 percent by number.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Conclusions with Respect to Performance Tests

LENDING TEST

GNB's performance under the lending test is satisfactory. The bank's loan-to-deposit (LTD) ratio is reasonable when compared to institutions near the AA, and a substantial majority of the lending occurred within the AA. Additionally, the distribution of loans to borrowers and businesses of different income levels is reasonable.

Loan-to-Deposit Ratio

The LTD ratio for GNB is reasonable given the bank's size, financial condition, and AA credit needs. The bank's quarterly average LTD ratio since the previous CRA exam is 66.21 percent, compared to an average LTD ratio of 78.94 percent for similarly situated institutions.

Lending in Assessment Area

A substantial majority of the bank's lending activity is within the AA. Our sample included 83 home purchase loans, 30 home improvement loans, 50 home refinance loans, 20 consumer loans, and 20 business loans. The table below illustrates a breakdown of the bank's lending activity.

Lending in Upshur County										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Purchase	66	79.52	17	20.48	83	6,723	70.90	2,759	29.10	9,482
Improvement	28	93.33	2	6.67	30	2,070	96.06	85	3.94	2,155
Refinance	46	92.00	4	8.00	50	3,434	82.79	714	17.21	4,148
Consumer	18	90.00	2	10.00	20	248	90.18	27	9.82	275
Commercial	19	95.00	1	5.00	20	1,691	94.42	100	5.58	1,791
Totals	177	87.19	26	12.81	203	14,166	79.36	3,685	20.64	17,851

Source: Loan sample and HMDA data

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

GNB's distribution of loans to borrowers of different income levels and businesses of different sizes reflects reasonable penetration given the overall demographics of the AA.

The distribution of residential real estate loans is reasonable. The percentage of home purchase and home improvement loans to low-income families reflects a range of performance lower than the AA's demographics, while home purchase and home

improvement loans to moderate-income families were near the AA demographics. Residential home refinance loans to low-income families was significantly lower than AA demographics; however, refinance loans to moderate-income families were reasonable at a range of performance lower than the AA demographics. Please see the following table for additional information.

Borrower Distribution of Residential Real Estate Loans in Upshur County								
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
Purchase	20.54	10.61	18.90	15.15	21.69	22.73	38.87	50.00
Improvement	20.54	10.71	18.90	17.86	21.69	39.29	38.87	21.14
Refinance	20.54	8.70	18.90	10.87	21.69	19.57	38.87	56.52

Source: HMDA data; U.S. Census data.

The distribution of loans to small businesses is excellent. The percentage of loans to businesses with reported revenues of \$1 million or less is 90 percent, compared to 87.94 percent of businesses in the AA with 8.78 percent of businesses not reporting revenues. Please see the following table for additional information.

Borrower Distribution of Loans to Businesses in Upshur County				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	87.94	3.27	8.78	100%
% of Bank Loans in AA by #	90.00	10.00	0.00	100%
% of Bank Loans in AA by \$	95.96	4.04	0.00	100%

Source: Loan sample; Dun and Bradstreet data.

The distribution of consumer loans is reasonable. The percentage of loans to low-income borrowers exceeds the percentage of low-income households in the AA, while the percentage of loans to moderate-income borrowers significantly exceeds the percentage of moderate-income AA households. Please see the following table for additional information.

Borrower Distribution of Consumer Loans in Upshur County								
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	25.00	15.15	35.00	19.19	15.00	41.77	25.00

Source: Loan sample; U.S. Census 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 AA; therefore, an analysis would not be meaningful.

Responses to Complaints

GNB has not received any complaints or public comments regarding CRA performance during this evaluation period.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test (excludes CD loans): (01/01/15 to 12/31/16) Investment and Service Tests and CD Loans: (Not Applicable)	
Financial Institution	Products Reviewed	
Gilmer National Bank (GNB) Gilmer, TX	Residential Home Purchase, Residential Home Improvement, Residential Refinance, Consumer Loans and Commercial Loans	
Affiliate(s)	Affiliate Relationship	Products Reviewed
None		
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Texas Longview MSA #30980 Upshur County	Full-Scope	

Appendix B: Community Profiles for Full-Scope Areas

Upshur County

Demographic Information for Full-Scope Area: Upshur County - Longview MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	7	0.00	0.00	85.71	14.29	0.00
Population by Geography	39,309	0.00	0.00	87.81	12.19	0.00
Owner-Occupied Housing by Geography	11,416	0.00	0.00	85.61	14.39	0.00
Businesses by Geography	1,833	0.00	0.00	89.91	10.09	0.00
Farms by Geography	95	0.00	0.00	86.32	13.68	0.00
Family Distribution by Income Level	10,670	20.54	18.90	21.69	38.87	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	4,209	0.00	0.00	89.74	10.26	0.00
Median Family Income	= \$54,648	Median Housing Value		= \$87,044		
FFIEC Adjusted Median Family Income for 2016	= \$55,700	Unemployment Rate		= 4.00%		
Households Below the Poverty Level	= 1,952 or 13.31%					

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2010 U.S. Census, and 2016 FFIEC updated MFI.

The AA meets the requirements of the regulation. Upshur County consists of the following cities: Gilmer, Big Sandy, Ore City, East Mountain, and Union Grove. There are seven census tracts located within the AA, including six middle-income tracts, one upper-income tract, and no low- or moderate-income tracts.

Upshur County has a total population of 39,309 based on U.S. Census data. The distribution of families by income level, regardless of census tract location, consists of the following: 20.54 percent low-income families, 18.90 percent moderate-income families, 21.69 percent middle-income families, and 38.87 percent upper-income families. The weighted average of median housing is \$87,044, and 13.31 percent of the number of households live below poverty level. The unemployment rate has increased from three to four percent since the last CRA examination. Discussions with local community leaders noted the current economic condition is depressed. The city of Gilmer has been significantly impacted by the closing of the local ETMC Hospital, and has been unable to attract businesses, specifically industrial companies. The primary community credit needs for the AA are start-up businesses in need of affordable loans on reasonable terms. Major employers in Upshur County are the local school district, Rob Roy Industries, and Coil Specialists, Inc.