



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 16, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Mason National Bank
Charter Number 7098

111 Westmoreland
Mason, TX 76856-1789

Office of the Comptroller of the Currency

SAN ANTONIO – NORTH FIELD OFFICE
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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 the 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 “Outstanding.”

Mason National Bank’s (MNB) lending performance reflects an outstanding response to community credit and community development needs. This conclusion is based on the following results from our review:

- The loan-to-deposit (LTD) ratio is more than reasonable given the bank’s size, financial condition, and assessment area (AA) credit needs.
- The bank originated a substantial majority of loans inside its AA.
- The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels and businesses of different sizes.

SCOPE OF EXAMINATION

Mason National Bank (MNB) was evaluated under the Small Bank examination procedures, which include a lending test and a voluntary community development (CD) test. The lending test evaluates the bank’s record of meeting the credit needs of its AAs through its lending activities. The CD test evaluates the bank’s responsiveness to CD needs in its AAs through CD lending, qualified investments, and CD services.

The lending test for MNB covers its performance from August 11, 2003 through March 16, 2009, as this is representative of its lending strategy since the last CRA examination.

MNB’s primary loan products are agricultural/farm and residential loans. The bank does not report data under the Home Mortgage Disclosure Act (HMDA). Therefore, we selected a sample of residential real estate loans to evaluate the bank’s home loan performance. To evaluate the bank’s agricultural/farm lending performance, we selected a sample of agricultural/business loans.

DESCRIPTION OF INSTITUTION

MNB, a \$91 million institution, was chartered in 1904, is a locally owned community bank and is one of two community banks headquartered within the AA. The bank’s one office consists of a drive-up motor bank and a walk-in teller lobby. The bank does not have an automatic teller machine (ATM) machine. The bank provides services primarily to the city of Mason and the rural area of Mason County. Primary lending products include business loans, agricultural loans and mortgages, and residential mortgages. MNB is a subsidiary of Mason National Bancshares, Inc., a Texas corporation based in Mason, Texas. MNB is the primary asset of the holding company.

On February 28, 2009, net loans comprised 62% of MNB’s total assets. A summary of the loan portfolio is as noted on the table on the following page:

Loan Portfolio Summary by Loan Product December 31, 2008		
Loan Category	Dollar Volume \$(000)	% of Outstanding Dollars
Commercial	7,506	16
Residential	11,099	24
Agriculture/Farm	20,149	43
Other Loans	450	1
Consumer	7,782	16
Total	46,986	100

There are no legal, financial, or other factors impeding the bank's ability to meet the credit needs of its AA. The last CRA performance evaluation was done on August 11, 2003, and the bank was also rated "Outstanding. There have been no significant changes in the bank's corporate structure or business strategy.

DESCRIPTION OF ASSESSMENT AREA

MNB has one AA which is described below.

Mason County Assessment Area

MNB's delineated AA is Mason County. The City of Mason is the county seat and major population center in Mason County. Mason is located in the center of the county and is surrounded by farms and ranches. The economy is primarily agricultural, with ranching as the focus. The city of Mason is 120 miles northwest of Austin and about 100 miles northwest of San Antonio. The AA consists of two block numbering areas (BNAs) which are designated as middle-income. There are no low-, moderate-, or upper-income tracts in the AA. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Mason County's economy has historically relied on the ranching and farming industries. The county's economy is increasingly reliant on tourism revenue generated by hunting activities, deer leases, bed and breakfast locations, antique/gift shopping, and wine producing vineyards. The city of Mason had been experiencing population growth due to low land and housing prices compared to the neighboring cities of Llano and Fredericksburg. Over the past few years the disparity between the cities is decreasing and the housing gap has narrowed. Mason continues to experience strong demand for residential real estate. The largest local employer is the Mason Independent School District. The Mason County AA includes two other financial institutions consisting of The Commercial Bank of Mason and First State Bank, which are both located in close proximity to MNB. Demographic and economic characteristics of the AA are presented on the next page.

Demographic Information for Mason County AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	2	0	0	100	0
Population by Geography	3,738	0	0	100	0
Owner Occupied Housing Units by Geography	2,372	0	0	100	0
Businesses by Geography	420	0	0	100	0
Farms by Geography	66	0	0	100	0
Family Distribution by Income Level	1,105	17.47	17.83	21.45	43.26
Household Distribution by Income Level	1,592	23.43	15.20	18.78	42.59
Census Median Family Income (MFI)		\$36,380	Median Housing Value		\$79,394
HUD – Adjusted MFI: 2008		\$43,600	Households Below Poverty Level		14%
HUD – Adjusted MFI: 2007		\$41,800	Unemployment Rate		2%
HUD – Adjusted MFI: 2006		\$43,100			

In conducting the assessment of MNB’s performance, we contacted a local community organization. This contact indicated that banks in Mason County are doing a good job of meeting the credit needs of individuals in this AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

MNB’s performance under the Lending Test is outstanding considering the performance context and needs of its AA. The borrower distribution was given more weight than the geographical distribution since the bank has no low- to moderate-, or upper-income census tracts in the AA.

Loan-to-Deposit Ratio

MNB’s LTD is more than reasonable given the bank’s size, financial condition, and AA credit needs. The bank’s net LTD ratio averaged 83% over the last 22 quarters since the last CRA examination, with a quarterly low of 64% and a quarterly high of 93%. The bank’s net LTD ratio compares favorably with other community banks of similar size, location, and product offerings. MNB ranks first among a total of four similarly situated banks in the area. The other four banks had an average LTD ratio averaging 55%. Asset size and LTD comparisons between similar institutions are presented on the following table.

Institution	Assets as of 12/31/08 (000s)	Average Quarterly LTD Ratio as of 12/31/08
Mason National Bank.	\$91,345	83.01%
Llano National Bank	\$97,247	67.09%
Menard National Bank	\$30,724	47.00%
Junction National Bank	\$38,626	50.97%
The Commercial Bank of Mason	\$20,757	67.33%

Lending in the Assessment Area

A substantial majority of the primary loan products originated by MNB are to consumers within its AA. The following table details the bank’s lending within the AA by number and dollar amount of loans originated during the evaluation period.

Lending in Mason County AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total \$
	#	%	#	%		\$	%	\$	%	
Agriculture/Farm	19	95	1	5	20	2,073,597	99	19,000	1	2,092,597
Residential	20	100	0	0	20	1,355,414	100	0	0	1,355,414
Total	39	98	1	2	40	3,429,011	96	226,746	4	3,448,011

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

The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels and businesses of different sizes. More weight was given to agricultural/farm loans as this is the bank’s primary loan product.

Residential Loans

Overall, the distribution of residential loans to borrowers reflects reasonable penetration among borrowers of different income levels.

Our loan sample shows that residential lending reflected percentages lower than those reported in the demographic data for low-income borrowers. MNB made 5% of residential loans to low-income borrowers during the evaluation period. The demographic data indicates that 17% of families in the AA are low-income. Households below the poverty level represent 14% of the total households in the AA. The level of income for low-income families based on the 2008 HUD-adjusted family income is \$18,190 or less. This low level could inhibit potential borrowers from qualifying for residential loans, since the 2008 median housing value is \$79,394. Residential lending to moderate-income borrowers is reasonable as compared to the demographic data for moderate-income families. MNB made 10% of residential loans to moderate-income borrowers during the evaluation period. The demographic data indicates nearly 18% of families in the AA are moderate-income.

Although our sample identified only 15% of loans made to low- to moderate-income families, management identified an additional 5 loans originated in the evaluation period that were made to low/moderate income families. The table on the following page shows the distribution of home loan products among borrowers of different income levels as compared to the percent of families in each income category.

Borrower Distribution of Residential Real Estate Loans in Mason County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Residential	17	5	18	10	21	40	43	45

Agricultural/Farm Loans

The distribution of agricultural/farm loans reflects reasonable penetration among businesses of different sizes. Ninety-five percent of the bank’s loans to agriculture/farms originated and purchased during the loan sampling period were made to small businesses. Small businesses are businesses with gross annual revenues of \$1 million dollars or less. This is considered reasonable compared to demographic data that show 98% of the area’s businesses are considered small businesses.

The following table shows the distribution of agricultural/farm loans among farms of different sizes in the AA.

Borrower Distribution of Loans to Agriculture/Farms in Mason County AA		
<i>Agricultural/Farms Revenues (or Sales)</i>	<i>≤\$1,000,000</i>	<i>>\$1,000,000</i>
% of AA Agricultural/Farms	98	2
% of Bank Loans in AA by #	95	5
% of Bank Loans in AA by \$	92	8

Geographic Distribution of Loans Since the bank has no low-, moderate-, or upper-income census tracts, a meaningful geographic distribution analysis to determine penetration into the low-, moderate-, or upper-income areas was not performed.

Responses to Complaints

MNB has not received any CRA complaints during this evaluation 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.