



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 13, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Marble Falls National Bank
Charter #17003**

**418 Highway 281
Marble Falls, Texas 78654**

**Office of the Comptroller of the Currency
Southwestern District, Austin Field Office
8310 Capital of Texas Highway, North, Suite 250
Austin, Texas 78731-1080**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the CRA performance of **Marble Falls National Bank (MFNB)** as prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of December 13, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is assessed a rating of **Outstanding**.

MFNB's lending performance reflects an outstanding responsiveness to community credit needs. The following highlights the bank's performance:

- C MFNB's loan-to-deposit ratio (LTD) is significantly higher than all other area banks' LTD ratio and exceeds the standard for satisfactory performance. MFNB's LTD ratio averaged 63.5% from December 1996 to September 1999; local competition averaged 48.8% for the same period.
- C A substantial majority of the number and dollar volume of loans originated through November 1999 is in the bank's assessment area.
- C The distribution of borrowers reflects a very good level of lending to low- and moderate-income families and a significant level of lending to small businesses and small farms within the bank's assessment area.
- C MFNB's assessment area does not contain any low- or moderate-income census tracts. Therefore, an assessment of the geographic distribution of loans in the bank's assessment area would not be meaningful.
- C MFNB received a "Satisfactory" rating at its June 27, 1996 CRA examination and has not had any complaints concerning its CRA performance since that time.

DESCRIPTION OF INSTITUTION

MFNB is a \$86 million bank headquartered in Marble Falls, Texas, approximately 50 miles northwest of Austin. The bank's loan portfolio totals \$55 million or 64% of total assets. The bank has one branch located in Horseshoe Bay, Texas, which was opened late 1996. Both locations provide drive-through facilities and automated teller machine (ATM) access. The bank also has an ATM at the Marble Falls HEB grocery store.

The bank's primary focus is to promote the economic development in Burnet, Llano, and Southwest Travis counties through its lending programs and community involvement. MFNB's market niche is small business and consumer lending. The bank also provides residential real estate loan products. The following reflects a detailed breakdown of MFNB's loan portfolio as of September 30, 1999.

Loan Portfolio Composition		
Loan Type	Amount (000's)	Percentage of Gross Loans
Commercial Real Estate Loans	\$ 23,074	41.8%
1 - 4 Family Residential Loans	\$ 18,366	33.3%
Consumer Loans	\$ 8,238	14.9%
Commercial and Industrial Loans	\$ 3,934	7.1%
Agricultural Loans	\$ 1,336	2.4%
Other Loans	\$ 204	0.5%
Total	\$ 55,152	100%

Complete banking services are provided Monday through Friday at both locations. Drive-in facilities are available on Saturday mornings. MFNB faces competition from a variety of banks, savings and loans, and investment brokerage firms. MFNB's main office competes with six other financial institutions and the Horseshoe Bay branch competes with one bank in Horseshoe Bay. Based on its financial condition, the local economies, product offerings, competition and prior performance, MFNB has the ability to meet the various credit needs in its communities. There are no legal factors impeding the bank's ability to help meet the credit needs in its assessment area.

MFNB is owned by Marble Falls National Bancshares, Inc., a one-bank holding company with ownership vested in six shareholders.

DESCRIPTION OF ASSESSMENT AREA

MFNB has designated block numbering areas (BNA) in Burnet and Llano Counties, and one census tract in Travis County, Texas as its assessment area. The Burnet County assessment area includes the communities of Marble Falls, Meadowlakes, Cottonwood Shores, Granite Shoals, Smithwick, and Spicewood. The Llano County area includes Horseshoe Bay, Sunrise Beach, Kingsland and Buchanan Dam. The Travis County census tract includes the communities of Spicewood, Briarcliff, and Lakeway. Based on 1990 Census information, six BNAs are considered middle-income and three BNAs are considered upper-income. The Travis county census tract is considered upper-income. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income BNAs or census tracts.

The local economy is strong and is centered around tourism, recreation and mining. According to 1990 Census information, approximately 26% of the assessment area population are retired. Families below the poverty level represent 12% of families in the assessment area.

Information from the Department of Housing and Urban Development reports the 1999 Texas non-metro median family income at \$36,050. Based on this data, low-income families comprise 16% of the assessment area, moderate-income families comprise 16%, and middle- and upper-income families comprise 21% and 47%, respectively.

As part of this examination, a contact was made in the community with an entity knowledgeable of housing needs and demands in the area. The contact indicated that there was a strong demand for affordable housing, but construction costs were prohibitive. Federal and State programs are available to assist eligible borrowers, but community support and financing was needed. The contact stated that area banks were very supportive by providing financial assistance and expertise in pursuing these programs. The contact further stated that local banks have provided loans, services, and donations to support local projects and that MFNB and Security State Bank & Trust were leaders in providing loans and services for local programs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

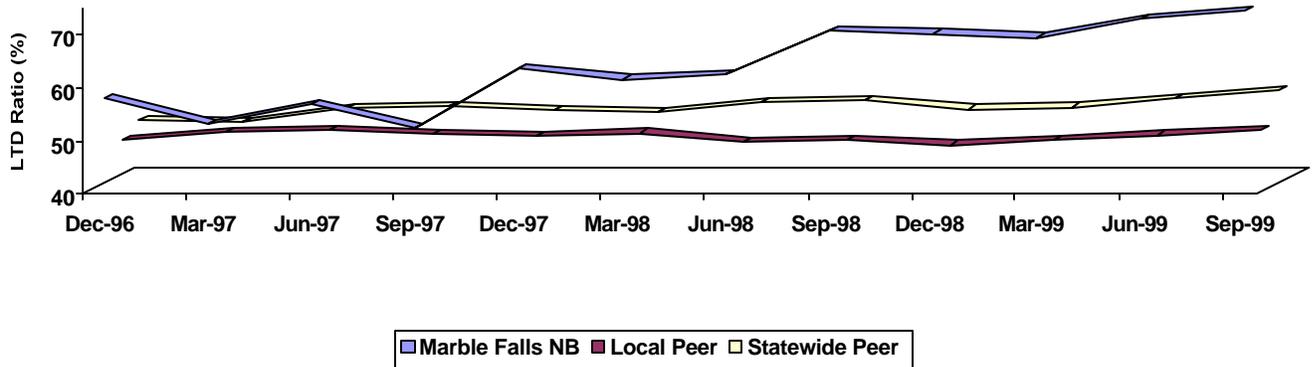
Management's lending products and practices have been very successful in meeting the credit needs of the assessment areas, including low- and moderate-income individuals, consistent with its resources and capabilities.

Loan-to-Deposit Ratio

MFNB's LTD is significantly higher than all other area banks' LTD ratio and exceeds the standard for satisfactory performance. MFNB's LTD ratio averaged 63.5% from December 1996 to September 1999; local competition averaged 48.8% and a statewide peer averaged 52.6% for the same period.

The bank's LTD ratio, as of September 30, 1999, was 73.9% while the local competition's average ratio was 49.9%. The following graphic represents MFNB's lending activity since the last CRA evaluation.

Historical LTD Comparison



Lending in the Assessment Area

A substantial majority of the number and a majority of the dollar volume of loans originated through November 1999 are in the bank's assessment area. Based on information provided by the bank, 87% of the number and 57% of the dollar amount of loans in the bank's portfolio are within MFNB's assessment area. A summary of loans originated during 1999 indicated that the number and dollar volume of loans inside the assessment area were 83% and 72%, respectively, an indicator of more recent lending activity. Loan sampling of consumer, commercial, and residential loans during the examination supported these figures.

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

The loan distribution to individuals with different income levels within the assessment area exceeds the standard for satisfactory performance. Our review of all consumer vehicle purchase loans originated during October 1999 and November 1999, a total of 41, reflected a level of lending to low- and moderate-income families in excess of area demographics. Our review of all residential purchase loans originated from December 1997 through November 1999, a total of 27, indicated that the level of lending to low-income families was below demographic characteristics of the assessment area. This is attributable to a shortage of affordable housing in the area. Community contacts made during this examination indicated that property acquisition and construction costs have inhibited this type of development. The details of our review are reflected in the following chart.

Loan Sample Distribution by Income Group										
Updated 1999 Median Family Income	Low- Income Families		Moderate- Income Families		Middle- Income Families		Upper- Income Families		Total # of Families	
Area Demographic Characteristics	16.0%		16.3%		21.0%		46.7%		100%	
# of Families	1,404		1,439		1,844		4,109		8,796	
Loan Type	#	%	#	%	#	%	#	%	#	%
Consumer	9	22%	8	20%	12	29%	12	29%	41	100%
Residential	0	0%	4	15%	8	30%	15	55%	27	100%

We also reviewed 31 commercial loans and 5 agricultural loans to determine the distribution among businesses and farms of different sizes. Our analysis reflected a very good dispersion, given the bank's emphasis on small business lending, with 94% of commercial loans and 100% of agricultural loans being granted to entities having gross revenues of less than \$1 million. Details of our review are reflected in the following table.

Lending to Businesses and Farms of Different Sizes										
Gross Revenues \$	Less than 100,000		100,000- 250,000		250,000- 1,000,000		More than 1,000,000		Total	
Loan Type	#	%	#	%	#	%	#	%	#	%
Commercial	16	52%	5	16%	8	26%	2	6%	31	100%
Agricultural	4	80%	1	20%	0	0%	0	0%	5	100%

GEOGRAPHIC DISTRIBUTION OF LOANS

MFNB's assessment area does not contain any low- or moderate-income level census tracts or BNAs. An analysis of the geographic distribution of the bank's loans would not provide any meaningful information.

RESPONSE TO COMPLAINTS

The bank has received no consumer complaints concerning its CRA performance since the June 27, 1996 examination.

OTHER PERTINENT INFORMATION

A Fair Lending examination was performed in conjunction with this evaluation and found no evidence of disparate treatment or discriminatory practices.