



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 11, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Mason National Bank
Charter Number 7098**

**103 Westmoreland
Mason, TX 76856**

**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 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.

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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 Community Reinvestment Act (CRA) performance of **The Mason National Bank (MNB)** as prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of August 11, 2003. 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 rated Outstanding.

Mason National Bank's lending performance reflects a satisfactory response to community credit needs. Factors in our assessment include:

- The bank's loan-to-deposit ratio is more than reasonable given the bank's resources, local credit needs, and local competition.
- A substantial majority of loans and other lending-related activities are within the bank's assessment area (AA).
- The distribution of loans reflects excellent dispersion among individuals of different income levels and among businesses and farms of different sizes.
- The bank received no CRA-related complaints since the previous CRA examination.

DESCRIPTION OF INSTITUTION

Mason National Bank (MNB), a \$59 million institution, was chartered in 1904. MNB, a locally owned community bank, 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 ATM machine. The bank provides banking 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. of Nevada, which is a wholly owned corporation of Mason National Bancshares, Inc, a Texas corporation based in Mason, Texas, with total assets of \$7.9 million as of June 30, 2003. MNB is the primary asset of the holding companies.

On March 31, 2003, net loans comprised 62% of MNB’s total assets. A summary of the loan portfolio is as follows:

Loan Portfolio Composition As of March 31, 2003		
Loan Category	\$ (000)	%
Agricultural	16,666	46
Commercial	6,482	18
Residential Real Estate	7,754	21
Consumer	5,394	15
Total	36,296	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 June 8, 1998, and the bank was rated “Satisfactory.” The only change in the bank’s corporate structure is the formation of the holding companies, detailed on the previous page, on January 1, 2001. The Board of Directors is the same for the bank and holding companies, and management remains the same for the bank.

DESCRIPTION OF ASSESSMENT AREA (AA)

Mason National Bank’s delineated assessment area (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 county is 90 miles west 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 relying on tourism revenue generated by hunting activities, deer leases, bed and breakfast locations, antique/gift shops, and a recent interest in wine producing vineyards. The city is also experiencing some population growth because of its more affordable housing prices when compared to the cities of Fredericksburg (42 miles south) and Llano (34 miles east), where the local tourism industries have driven real estate prices higher. The largest local employers are the Mason Bottling Company and the Mason School District. Based on the 1990 U.S. Census, the population of the AA is 3,423. Additional demographic and economic characteristics of the AA are presented in the table on the following page.

The AA includes two other financial institutions. The Commercial Bank of Mason, an independent state-chartered community bank, has one location in Mason and has total assets of \$17.2 million as of March 31, 2003. A branch of First State Bank-Central Texas, based in Temple, is also located in the city. All financial institution locations are around the town square. Other banks in communities such as Fredericksburg, Menard, Junction, and Brady are located within a 40-mile radius of Mason.

This office conducted one community contact. We interviewed a small business owner who is also on the City of Mason Zoning Commission. He commented that local banks do a good job in providing credit needs and professional services to the community. He also stated that Mason has many older homes and there is a need for home improvement loans. He also stated that banks need to conduct financial and other out-reach programs for all parts of the community. The contact commented favorably about the performance of all banks in the AA, including the participation of MNB.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	1,020
Number of Households	1,440
Geographies	
Number of Census Tracts/BNAs	2
% Low-Income Census Tracts/BNAs	0
% Moderate-Income Census Tracts/BNAs	0
% Middle-Income Census Tracts/BNAs	100%
% Upper-Income Census Tracts/BNAs	0
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$24,585
2002 HUD-Adjusted MFI	\$36,100
2001 HUD-Adjusted MFI	\$35,800
2000 HUD-Adjusted MFI	\$34,700
1999 HUD-Adjusted MFI	\$33,900
1998 HUD-Adjusted MFI	\$32,100
Economic Indicators	
Unemployment Rate-AA June 2003	2.6%
Unemployment Rate-State June 2003	6.5%
Unemployment Rate-National June 2003	6.4%
2002 Median Housing Value	\$43,429
% of Households Below Poverty Level	29%

SAMPLING INFORMATION

Our review focused on MNB's three main product lines: agricultural, commercial, and residential mortgage loans. In each of the three main product lines, we sampled 20 loans where the bank collected income information. For the *Lending to Borrowers of Different Incomes and Lending to Businesses and Farms of Different Sizes*, we omitted the loans made outside of the AA and added loans to get to the minimum sample size of 20 loans per product line. All loans sampled were originated between July 1, 1998 and December 31, 2002.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

MNB has demonstrated outstanding performance in meeting the credit needs of the AA, including low- and moderate-income families, consistent with its resources and capabilities.

Loan-to-Deposit Ratio

MNB's Loan to Deposit ratio (LTD) is more than reasonable when compared to other rural community banks headquartered in surrounding counties. The bank ranks at the top with three other banks with high average LTD ratios. Refer to the table below.

Institution	Assets as of March 31, 2003 (000s)	Average Quarterly LTD Ratio 6/30/98 – 3/31/03
Mason National Bank	56,990	79%
Brady National Bank	58,083	70%
The Commercial Bank of Mason	17,217	54%
Llano National Bank	61,525	53%
Menard National Bank	27,311	46%
Junction National Bank	37,891	44%
Pioneer National Bank	73,391	33%
City National Bank of San Saba	45,546	24%

MNB's actual LTD ratio has increased since 1998. From December 31, 1998 to March 31, 2003, the LTD ratio increased 45%. Over the same period the volume of net loans increased from \$20.9 million to \$35.5 million, an increase of 70%. And total deposits increased from \$34.3 million to \$40.2 million, an increase of 17%. The table on the following page shows selected quarter end data.

Date	Total Deposits (000s)	Net Loans (000s)	LTD Ratio
March 31, 2003	40,232	35,604	88.50%
December 31, 2002	43,255	32,775	75.77
December 31, 2001	40,705	36,666	90.08
December 31, 2000	39,235	32,457	82.73
December 31, 1999	37,740	25,911	68.66
December 31, 1998	34,278	20,892	60.95

Lending in Assessment Area

A substantial majority of the bank's lending-related activities are within the AA. From our sample, we determined that 92% of loans by number (88% by dollar volume) are made to borrowers located within the AA. The following table shows the bank's lending activities in and out of the AA by type of loan sampled and originated between July 1, 1998 and December 31, 2002. This reflects an excellent record of affording credit within the AA.

Total Loans Reviewed								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial	18	90	1,241	84	2	10	232	16
Agriculture	18	90	3,599	89	2	10	427	11
Residential RE	19	95	1,523	89	1	5	189	11
Total Reviewed	55	92	6,363	88	5	8	848	12

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

The distribution of loans reflects excellent penetration among individuals of different income levels and among businesses and farms of different sizes. A sample of 20 combined commercial and commercial real estate loans, 20 residential mortgages, and 20 agricultural loans made within the AA were used for this evaluation. We equally considered each of these loan products in the overall rating for this assessment factor. The loans were originated during the same review period as above. The following tables summarize the distribution of MNB's lending for commercial, agricultural, and residential mortgage loans.

MNB made a majority of loans to businesses and farms with gross annual revenues of less than \$1 million. The tables on the following page illustrate the lending distribution to farms and businesses located within the bank's AA.

Borrower Distribution of Loans To Businesses (Non-Farm)		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	94	6
% of Bank Loans in AA (by number)	95	5
% of Bank Loans in AA (by \$)	88	12

The above table shows that MNB made 95% of the number of loans and 88% of the dollar volume of sampled loans to businesses earning less than \$1 million in gross revenues. The figures highlight the bank's strong commitment to these borrowers.

Borrower Distribution of Loans To Farms		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Farms	98	2
% of Bank Loans in AA (by number)	95	5
% of Bank Loans in AA (by \$)	58	42

The above table shows that 58% of the dollar volume of sampled farm loans was to farms earning less than \$1 million in gross revenues. Our sample included one large loan for \$1.5 million to a farm with gross annual income of more than \$1 million. That one large loan skewed the percentage of the dollar volume of loans in the AA. As noted in the above table, 98% of the farms in the AA earn less than \$1 million in gross revenues, and the bank originated 95% of the number of loans to small farms.

Distribution of Borrowers by Income Level Residential RE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	32		15		20		33	
LOANS BY YEAR	% of Number	% of Amount						
1998	5	1	0	0	5	1	15	28
1999	0	0	10	2	0	0	5	4
2000	0	0	0	0	0	0	15	27
2001	0	0	5	3	15	8	5	9
2002	0	0	10	4	5	4	5	9
Total	5	1	25	9	25	13	45	77

Our sample only contained one loan for residential mortgage loans to low-income borrowers.

However, management's internal analysis identified four more residential loans totaling \$66 thousand to low-income borrowers that originated during the past four years. Management and the community contact stated that it was difficult for low-income families to qualify financially for home purchases or home improvement loans, and 29% of households in the AA are below poverty level. The bank's record of residential lending to moderate-income families is strong.

Geographic Distribution of Loans

As previously noted, the bank's AA has no low to moderate income (LMI), or upper-income census tracts. Therefore, a meaningful geographic distribution analysis to determine penetration into the low, moderate, or upper-income areas could not be performed. The bank was not rated in this area.

Responses to Complaints

Mason National Bank received no consumer complaints during this evaluation period.

Fair Lending Review

An analysis of 1998 – 2003 public comments and consumer complaint information was performed according to the OCC's risk-based fair lending approach. Based on our analysis of the information, we decided that a comprehensive fair lending examination would not be needed in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was done concurrently with the consumer compliance examination dated June 8, 1998.