



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 14, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Community National Bank
Charter Number 18054**

**401 W. Texas
Midland, TX 79701**

**Comptroller of the Currency
Lubbock Field Office
5225 South Loop 289 Suite 108
Lubbock, TX 79424**

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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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

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

- The bank's loan-to-deposit ratio is reasonable and averaged 61 percent during the evaluation period. Such performance is reasonable given the available loan demand in the assessment areas.
- A substantial majority of CNB's loans are within its assessment areas.
- CNB has a reasonable distribution of loans to individuals and families of different income (including low- and moderate-income) levels, and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- There have been no complaints with respect to CNB's CRA performance.

DESCRIPTION OF INSTITUTION

Community National Bank (CNB) is an intrastate bank headquartered in Midland, Texas. CNB was chartered in 1984. CNB reported total assets of \$294 million as of March 31, 2003. The bank is a wholly owned subsidiary of Midland Bancshares, Inc. (MBI), a one-bank holding company located in Midland, Texas. MBI reported assets of \$40 million as of June 30, 2003. During the evaluation period, CNB purchased the assets of Bank United. This activity increased the number of CNB branch facilities.

CNB has two assessment areas (AAs) in West Texas. The AAs consist of whole geographies, do not reflect illegal discrimination, and do not arbitrarily exclude low- or moderate-income geographies and overall meet the requirements of the CRA regulation. The AAs are: (1) Midland County (portion of Odessa/Midland metropolitan statistical area) and (2) Martin County. There are seven banking locations in Midland County and one banking location in Martin County.

The bank offers a full range of commercial banking products and related financial services through its branch network within the AAs. The bank provides access to banking services through its website at www.cnbmidland.com. Services include account balance inquiries, funds transfer and bill payment services. The bank also offers 24-hour telephone banking. Services include account balance inquiries, loan payments, verification of direct deposits and automated teller machine (ATM) activity. In addition to the main office, located at 401 E. Texas Avenue in Midland, CNB has six branches in Midland. CNB's distribution network outside of the Midland County AA includes one branch in the city of Stanton located in Martin County approximately 15 miles east of Midland.

As of March 31, 2003, CNB had total assets of \$294 million, with 54 percent in the loan portfolio.

Although the bank has primarily been a commercial lender, residential real estate and consumer purpose loans are also available. The following chart details a breakdown of CNB's loan portfolio as of March 31, 2003.

Loan Portfolio Composition as of March 31, 2003		
Loan Category	\$ (000)	%
Commercial and Industrial	72,139	41.74%
Commercial Real Estate	53,367	30.88%
Residential Real Estate	25,781	14.92%
Consumer	11,246	6.51%
Agricultural	6,945	4.02%
Agricultural Real Estate	3,192	1.85%
Other	139	0.08%
Total	172,809	100.00

Source: March 31, 2003 Report of Condition

There are no legal or financial impediments to CNB's ability to help meet the credit, investment, and service needs of its assessment areas. CNB's Tier 1 Capital level is \$21 million representing 11.88 percent of adjusted average assets as of March 31, 2003. The bank is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks.

The bank's business strategy is to provide outstanding banking services to customers in West Texas while increasing the long-term value of the owners' investment.

All locations have bank lobby and drive-through services provided Monday through Friday. In addition, two locations have Saturday drive-through services. Based on its financial condition, the local economy, product offerings, and competition, CNB has the ability to meet the various credit needs in its community. The bank was rated "Satisfactory" at the last CRA examination on April 20, 1998.

DESCRIPTION OF MIDLAND COUNTY ASSESSMENT AREA

CNB has two AAs in West Texas. All areas consist of whole geographies, do not reflect illegal discrimination, and do not arbitrarily exclude low- or moderate-income geographies. The AAs meet the requirements of the CRA regulation. The AAs consist of (1) Midland County (portion of Odessa/Midland metropolitan area) and (2) Martin County. The AAs have full service branches with drive-up facilities. The AA that received a full-scope review during this evaluation was Midland County.

Midland County Assessment Area

This AA has six branch locations located in the city of Midland. Midland County is on the southern edge of the High Plains in West Texas. The city of Midland is the county seat and administrative center of the Permian Basin petroleum fields. Specific demographic data and economic data for this area are listed below.

Demographic and Economic Characteristics of Midland County AA	
Population	
Number of Families	28,833
Number of Households	38,967
Geographies	
Number of Census Tracts/BNA	26
% Low-Income Census Tracts/BNA	7.69
% Moderate-Income Census Tracts/BNA	11.54
% Middle-Income Census Tracts/BNA	26.92
% Upper-Income Census Tracts/BNA	53.85
Median Family Income (MFI)	
1990 MFI for AA	30,955
2002 HUD-Adjusted MFI	42,700
Economic Indicators	
Unemployment Rate	3.08
2002 Median Housing Value	65,952
% of Households Below Poverty Level	13.19

Source: 1990 Census data and HUD updated income data.

The AA is comprised of 26 census tracts. This area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income (LMI) geographies.

Based on 1990 Census data, the AA has a total population of 106,611. There are 45,181 housing units in the AA, of which 57 percent are owner-occupied, 29 percent are renter-occupied and 14 percent are vacant. Approximately 18 percent of the families in the AA are considered low-income. Moderate-income families approximate 15 percent, while middle- and upper-income families comprise the remaining 67 percent.

The local economy for Midland County is primarily oil and gas related and small businesses. Low oil and gas prices have had a negative impact on the local economy, however recent trends reflect the economy has shown improvement. The largest employers within the AA include the local school district, Key Energy Services, Basic Energy Services, Midland Memorial Hospital and Medical Center, and city and county government offices.

Competition is aggressive in the AA with thirteen financial institutions, and eight credit unions.

We contacted two individuals for the purpose of determining a community profile, identifying opportunities for participation by local financial institutions, and determining the performance of local financial institutions. These individuals indicated that the local economy has stabilized. They stated that there is a need for affordable low- and moderate-income housing and down payment assistance. The individuals also indicated the majority of area financial institutions are cooperative and diligent in trying to meet the community's credit needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

CNB's performance is satisfactory, and management has been successful in meeting the credit needs of the bank's assessment areas, including lending to individuals of different income (including low- and moderate-income) levels and businesses of different sizes.

Loan-to-Deposit Ratio

The loan-to-deposit ratio of CNB is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly average loan-to-deposit ratio was 61 percent since the prior CRA examination in April 1998. The average loan-to-deposit ratio of similarly situated banks within or contingent to the assessment area for the same period was 58 percent. Traditionally, CNB has primarily been a commercial lender.

The quarterly average loan-to-deposit ratio for each similarly situated bank in or contiguous to the assessment area is listed below. Please note that these banks are listed alphabetically by city and that no ranking is intended or implied.

Loan-to-Deposit Ratios		
Institution	Total Assets \$ (000's) (As of 03/31/03)	Average Loan-to-Deposit Ratio
Community National Bank, Midland	294,094	60.73%
First National Bank, Midland*	93,908	40.87%
West Texas National Bank, Midland**	312,643	61.03%
Security State Bank, Odessa	152,563	43.75%
Western National Bank, Odessa	388,137	87.61%

Source: Institution Reports of Condition from June 1998 to March 2003

*Institution Reports of Condition from December 1998 to March 2003

**Institution Reports of Condition from March 2001 to March 2003

Lending in Assessment Area

A substantial majority of the bank's loans were made within its AA. In order to assess performance for these criteria, we reviewed 29 commercial and 30 consumer loans originated between 2000 and December 2002. In addition, 853 residential loans originated between 2000 and December 2002 were reviewed. Our analysis determined that 86.8 percent of the number of loans and 83.0 percent of the dollar amount of loans in the sample were extended within the bank's AA. The breakdown by loan category is illustrated in the following table.

Lending in the Assessment Areas								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial	22	75.9%	3,909	61.0%	7	24.1%	2,499	39.0%
Consumer	27	90.0%	399	97.3%	3	10.0%	11	2.7%
Home Mortgage	743	87.1%	49,605	85.4%	110	12.9%	8,514	14.6%
Total Reviewed	792	86.8%	53,913	83.0%	120	13.2%	11,024	17.0%

Source: Sample of loans used for CRA performance analysis.

Selection of Assessment Area for Full Scope Review

During this examination, we performed a full-scope review for the Midland County AA. This AA has a substantial share of CNB's business, 93 percent of the number of loans. A limited scope review was conducted for the Martin County AA.

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

CNB's loan portfolio reflects a reasonable distribution among individuals and families of various income levels (including low- and moderate-income) and businesses of different sizes within their AA. To perform our analysis, we reviewed income information of 21 business-, 22 consumer-, and 705 residential-purpose loans in the Midland AA.

Business Loans - Based on 2002 Business Demographic Data, there are 7,930 businesses with reported revenues located within the Midland County AA. Of this number, 92.7 percent of businesses reported revenues less than or equal to \$1 million. Of the loans in the business purpose sample, 76.2 percent were to businesses reporting annual revenues below \$1 million. This level is comparable to the assessment area information and reflects a satisfactory penetration of business loans to small businesses. The following chart reflects the results of our selected sample of business loans originated in this AA.

Borrower Distribution of Loans to Businesses in Midland County Assessment Area		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	92.7%	7.3%
% of Bank Loans in AA by #	76.2%	23.8%
% of Bank Loans in AA by \$	54.7%	45.3%

Source: Loan sample; Dunn and Bradstreet data

Consumer Loans - Our analysis reflects a reasonable penetration of consumer loans to low- and moderate-income households in the Midland County AA. Based on 1990 Census Information, 34.7 percent of households in the AA are low- and moderate income. Our review determined that 27.3 percent of consumer loans were made to low- and moderate-income households. The distribution of consumer loans is comparable to the income characteristics of the AA for low- and moderate-income households. The following chart reflects the results of our selected sample of consumer loans originated in this AA.

Borrower Distribution of Consumer Loans in Midland County Assessment Area								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	20.42%		14.33%		16.85%		48.39%	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	18.2%	5.3%	9.1%	7.5%	22.7%	16.6%	50.0%	70.6%

Source: Loan sample; 1990 U.S. Census data.

Residential Real Estate Loans - Our analysis reflects a reasonable penetration of residential real estate loans to low- and moderate-income families. Based on 1990 Census information, 33.0 percent of families in the AA are low- and moderate income. Our review determined that 14.5 percent of residential real estate loans were made to low- and moderate-income families. This lower performance is primarily due to the qualification requirements demanding larger income levels as well as significant closing costs and down payments, which many low- and moderate-income individuals are unable to produce. In addition, approximately 13.2 percent of the families in the AA are below poverty level. The following chart reflects the results of our selected sample of residential real estate loans originated in this AA.

Borrower Distribution of Residential Real Estate Loans in Midland County AA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	17.8%		15.2%		18.8%		48.3%	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Refinance	3.7%	1.1%	5.0%	3.2%	12.4%	6.8%	78.9%	88.9%
Home Purchase	6.0%	3.1%	9.7%	7.6%	23.3%	18.0%	61.0%	71.3%
Home Improve.	10.6%	1.0%	16.0%	5.0%	20.2%	9.6%	53.2%	84.4%
Total	5.8%	2.0%	8.7%	5.2%	18.3%	11.7%	67.2%	81.1%

Source: Data reported under HMDA; 1990 U.S. Census data.

Geographic Distribution of Loans

CNB's geographic distribution of loans within the census tracts is reasonable given the bank's business strategy and locations. Our analysis included 21 business-, 22 consumer-, and 705 residential-purpose loans in the Midland AA. 1990 demographic information indicates that the low- and moderate-income areas are located in the southeastern portion of the city of Midland.

Business Loans - The performance in the low and moderate-income census tracts is lower than the demographic composition of the AA. The following chart reflects the results of our selected sample of business loans originated in CNB's AA.

Geographic Distribution of Business Loans in Midland County AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	5.9%		10.4%		42.4%		41.3%	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	9.5%	0.8%	0.0%	0.0%	42.9%	34.5%	47.6%	64.7%

Source: Loan sample; Dunn and Bradstreet data

Consumer Loans - Our analysis indicated that the geographic distribution of CNB's lending in the low- and moderate-income census tracts for consumer loans is comparable to the demographic composition of Midland County. Our review determined that 13.6 percent of consumer loans were located in low- and moderate-income BNAs. The following chart reflects the results of our selected sample of consumer loans originated in Midland County.

Geographic Distribution of Consumer Loans in Midland County AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	5.9%		8.6%		30.6%		54.9%	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	9.1%	2.1%	4.5%	4.0%	45.5%	34.7%	40.9%	59.2%

Source: Loan sample; 1990 U.S. Census data.

Residential Real Estate Loans - Our analysis indicated that the geographic distribution of loans in the low- and moderate-income areas for residential real estate loans is reasonable in Midland County. The following chart reflects the results of our selected sample of residential real estate loans originated in Midland County.

Geographic Distribution of Residential Real Estate Loans in Midland County AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
%of AA Owner Occupied	6.0%		8.9%		36.2%		48.9%	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Refinance	1.1%	0.6%	4.0%	1.8%	35.6%	35.9%	59.4%	61.6%
Home Purchase	1.4%	0.4%	8.1%	2.6%	37.2%	40.8%	53.4%	56.2%
Home Improve.	8.5%	2.3%	5.4%	1.3%	46.5%	49.3%	39.5%	47.1%
Total	2.6%	0.6%	6.0%	2.1%	38.3%	38.8%	53.2%	58.4%

Source: Data reported under HMDA; 1990 U.S. Census data.

Conclusions for Area Receiving Limited-Scope Review

Based on a limited-scope review, the bank’s lending performance in the Martin County AA is consistent with the bank’s satisfactory CRA performance.

Responses to Complaints

No complaints relating to CRA performance have been received by CNB.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.