



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**January 22, 2008**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Menard National Bank  
Charter Number 22837

201 Ellis Street  
Menard, TX 76859-0000

Office of the Comptroller of the Currency

San Antonio North Field Office  
10001 Reunion Place Boulevard, Suite 250.  
San Antonio, TX 78216

**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.

**INSTITUTION'S CRA RATING: This institution is rated "Outstanding"**

Menard National Bank's (MNB) lending performance is outstanding given the institution's size, financial condition, and known credit needs in its assessment area (AA). Performance under the following criteria contributed to the bank's rating:

- MNB's loan-to-deposit (LTD) ratio has increased during the rating period from 41% to 52%. This ratio is comparable to other similarly situated banks and is reasonable when considering the nature of the community, customer base, and known credit needs in the AA.
- A majority (87%) of MNB's loans are within the AA.
- The distribution of loans reflects an excellent penetration among individuals of different income levels and among businesses of different sizes.
- The geographic distribution of loans reflects an excellent dispersion to the moderate-income census tract within the AA.
- The bank received no CRA-related complaints since the previous CRA examination.

**DESCRIPTION OF INSTITUTION**

MNB is a \$32 million institution located in Menard, Texas. Currently, MNB is the only community bank headquartered within the AA. The bank's one office consists of a drive-up motor bank and a walk-in teller lobby. The bank owns two automatic teller machines (ATMs). One ATM is located in the Pic-n-Pac convenience store on the north side of Menard, and the other is located in the Tres Amigos convenience store on the south side of Menard. The bank provides banking services primarily to the city of Menard and the rural area of Menard County. Primary lending products include business, agricultural, and residential mortgage loans. MNB is a subsidiary of Menard National Bancshares, Inc. of Delaware, which is a wholly owned corporation of Menard National Bancshares, Inc, a Texas corporation based in Menard, Texas. Menard National Bancshares, Inc. had total assets of \$3.9 million as of December 31, 2007. MNB is the primary asset of the holding companies. There have been no changes in the bank's corporate structure.

On December 31, 2007, net loans comprised 44% of MNB's total assets. A summary of the loan portfolio is as follows:

Loan Type	Dollar Amount (000's)	% of Total Loans
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Real Estate (RE) Construction	763	5%
RE Farmland	2,411	17%
RE Residential (1-4)	2,628	19%
RE Multifamily Residential	0	0%
RE Nonfarm Nonresidential	3,430	24%
Agricultural Production	2,230	16%
Commercial and Industrial	1,716	12%
Consumer	1,007	7%
States/Political Subdivisions	0	0%
Other	0	0%
Total	14,185	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 conducted on September 22, 2003, and the bank was rated "Satisfactory."

## **DESCRIPTION OF ASSESSMENT AREA**

The bank designated all of Menard County as its AA and includes only two census tracts (CTs). One CT is classified as a moderate-income, and the other is a middle-income geography. There are no low- 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.

The City of Menard is the county seat and major population center in Menard County. Menard is roughly 70 miles southeast of San Angelo and 140 miles northwest of San Antonio. The economy is primarily agricultural with goats, sheep, and cattle being the primary industries. Many ranches receive additional income from deer and turkey hunting. Economic conditions are currently stable. The city of Menard is experiencing very little population growth due to the lack of new businesses and no growth in suitable housing. The lack of jobs prompts many to leave the area after graduating from high school. The largest local employers are the Menard Independent School District; the Kothmann Commission Company, Inc., a livestock feed lot company; Ranch House Meat Company, a meat-packing and shipping company; and the local county and city governments. Based on the 2000 U.S. Census, the population of the AA is 2,360. Additional demographic and economic characteristics of the AA are presented in the table on the following page.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>		
<b>Population</b>		
Number of Families		676
Number of Households		1,004
<b>Geographies</b>		
Number of Census Tracts (CTs)		2
% Low-Income CTs		0.0%
% Moderate-Income CTs		50.00%
% Middle-Income CTs		50.00%
% Upper-Income CTs		0.0%
<b>Median Family Income (MFI)</b>		
2000 Census MFI		36,380
2005 HUD-Adjusted MFI		42,000
2006 HUD-Adjusted MFI		43,100
2007 HUD-Adjusted MFI		43,100
<b>Economic Indicators</b>		
Unemployed Labor		1.53%
2007 Median Housing Value		58,973
% of Households Below Poverty Level		23.11%

In conjunction with this examination, we contacted a local school superintendent. The contact indicated that MNB is a very active participant in sustaining the local economy. The community contact views MNB as serving all the community's credit needs.

## **SCOPE**

Our review originally focused on MNB's three main product lines: commercial, residential real estate, and agricultural loans. However, according to US Census information, all of the AA farms are located in the county's middle income CT and have revenues of under \$1 million. Therefore, both an income and geographic distribution analysis of MNB's agricultural lending would be meaningless. As such, we focused our lending assessment on the bank's residential real estate and commercial loan products. In each of the two selected product lines, we sampled loans until we reached 20 per product that were originated to borrowers in the AA. We sampled a total of 46 loans originated between January 1, 2005, and December 31, 2007.

## **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 the bank's resources and capabilities.

## Loan-to-Deposit Ratio

The bank's LTD ratio is reasonable given its size, financial condition, and AA credit needs. Since the last CRA examination in September 2003, the LTD ratio has increased from 41% to 52%, as of December 31, 2007. MNB's average LTD ratio over the past 17 quarters is 43%, which places the bank roughly in the middle when compared to the average LTD ratio of six other similarly-situated banks. The LTD ratio for the six other banks averaged 50% during this same time period. As of December 31, 2007, MNB had \$5.3 million in public funds. MNB does not sell loans in the secondary market. Refer to the table below for a comparative analysis of other financial institutions.

Institution	Assets as of September 30, 2007	Average LTD Ratio %
The Commercial Bank – Mason	20,739	63.33
First State Bank – Paint Rock	51,465	62.38
Junction National Bank	39,855	50.76
First State Bank – Junction	34,963	43.93
<b>Menard National Bank</b>	<b>30,861</b>	<b>42.91</b>
First National Bank of Eldorado	44,008	42.50
The Eden State Bank	57,334	34.61

## Lending in Assessment Area

A majority of the bank's lending-related activities are within the AA. From our sample, we determined that 87% of loans by number (81% 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. The bank lending performance reflects a strong record of providing credit services within the AA.

TOTAL LOANS REVIEWED								
Loan Type	In Assessment Area				Out of Assessment Area			
	#	%	#	%	#	%	#	%
Residential Real Estate	20	91	624	89	2	9	78	11
Commercial	20	83	2,807	79	4	17	726	21
<b>Total Reviewed</b>	<b>40</b>	<b>87</b>	<b>3,431</b>	<b>81</b>	<b>6</b>	<b>13</b>	<b>804</b>	<b>19</b>

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

The distribution of MNB's loans reflects an excellent penetration among individuals of different income levels and businesses of different sizes. A sample of 20 combined commercial and commercial real estate loans and 20 residential mortgage loans made within the AA were used for this evaluation. As indicated previously, we sampled from loans originated or purchased from January 1, 2005, through December 31, 2007. The following two tables summarize the income distribution of MNB's residential real estate and commercial lending as it relates to demographics within the AA.

<b>Borrower Distribution of Residential Real Estate Loans</b>								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of Families	28.3		18.3		24.0		29.4	
	% of Number	% of Amount						
<b>Total</b>	<b>20.0</b>	<b>12.7</b>	<b>50.0</b>	<b>47.0</b>	<b>15.0</b>	<b>11.3</b>	<b>15.0</b>	<b>29.0</b>

MNB has an excellent penetration of residential real estate lending to moderate-income families within its AA. US Census demographics indicate that approximately 18% of AA families are considered moderate income. Comparatively, 50% of the number of residential real estate loans and 47% of the dollar volume sampled went to moderate-income borrowers. Our sample reflected a reasonable penetration of residential real estate lending to low-income borrowers when considering the nature of the community and the number of low-income borrowers that would qualify for a mortgage.

<b>Borrower Distribution of Commercial Loans</b>		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	96.8	3.2
% of Bank Loans in AA #	90.0	10.0
% of Bank Loans in AA \$	62.9	37.1

MNB has a reasonable penetration of lending to small businesses, defined as having annual gross revenues under \$1 million. According to U.S. Census information, approximately 97% of businesses in the AA have revenues of less than \$1 million; 90% of sampled commercial loans were made to these businesses. While only 10% of the number of loans sampled was made to businesses with gross annual revenues over \$1 million, 37% of the dollar volume went to these businesses. This distribution is reasonable when considering the fact that larger businesses inherently qualify for and demand larger loan amounts.

### **Geographic Distribution of Loans**

The geographic distribution of loan originations within the AA reflects an excellent dispersion to the moderate-income CT within the AA. We used the same sample in this analysis as described in the income distribution analysis. The following two tables summarize the geographic distribution of MNB's residential real estate and commercial lending as it relates to AA demographics.

<b>Geographic Distribution of Residential Real Estate Loans</b>								
CT Income Level	LOW		MODERATE		MIDDLE		UPPER	
%of AA Owner Occupied	N/A		70.9		29.1		N/A	
	% of Number	% of Amount						
Totals	N/A	N/A	85.0	61.7	15.0	38.3	N/A	N/A

The sampled residential real estate loans reflect an excellent dispersion of lending to borrowers located in the moderate-income CT. Approximately 71% of the AA’s owner occupied units are located in the moderate-income CT. Comparatively, 85% of sampled loans were made to borrowers in the moderate-income CT. The AA’s only moderate-income CT is delineated by the city limits of Menard. The City of Menard is the major population center in Menard County and is the housing center of the AA. Therefore, it is logical that the majority of the bank’s residential real estate loans are originated to borrowers in the moderate income census tract.

<b>Geographic Distribution of Commercial Loans</b>								
CT Income Level	LOW		MODERATE		MIDDLE		UPPER	
%of AA Businesses	N/A		44.3		55.7		N/A	
	% of Number	% of Amount						
Totals	N/A	N/A	55.0	64.1	45.0	35.9	N/A	N/A

MNB’s commercial lending reflects an excellent dispersion to businesses located in the moderate-income CT. Approximately 44% of AA businesses are located in the moderate-income CT. MNB originated 55% of the number and 64% of the dollar amount of commercial loans to businesses located in the moderate income CT.

**Responses to Complaints**

MNB has received no complaints relating to its CRA performance.

**Fair Lending Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.