



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 22, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Menard National Bank
Charter Number 22837**

**201 Ellis Street
Menard, TX 76859**

**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.

TABLE OF CONTENTS

INSTITUTION'S CRA RATING.....	1
DESCRIPTION OF INSTITUTION	1
DESCRIPTION OF ASSESSMENT AREA	2
CONCLUSIONS ABOUT PERFORMANCE CRITERIA.....	4

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 **Menard National Bank (MNB)** as prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of September 22, 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 Satisfactory.

Menard 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 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 reasonable penetration among individuals of different income levels and among businesses and farms of different sizes.
- The geographic distribution of loans reflects excellent dispersion throughout the AA.
- The bank received no CRA-related complaints since the previous CRA examination.

DESCRIPTION OF INSTITUTION

Menard National Bank (MNB), a \$27 million institution, 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 owns two automatic teller machines (ATM). One ATM is located in the PicnPac 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 Nevada, which is a wholly owned corporation of Menard

National Bancshares, Inc, a Texas corporation based in Menard, Texas, with total assets of \$4.1 million as of August 29, 2003. MNB is the primary asset of the holding companies.

On June 30, 2003, net loans comprised 37% of MNB’s total assets. A summary of the loan portfolio is as follows:

Loan Portfolio Composition As of June 30, 2003		
Loan Category	\$ (000)	%
Commercial and Commercial Real Estate	4,768	48
Residential Real Estate	2,429	24
Agricultural	1,954	20
Consumer	863	8
Total	10,014	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 2, 1999, and the bank was rated “Satisfactory.” There have been no changes in the bank’s corporate structure.

DESCRIPTION OF ASSESSMENT AREA (AA)

The bank’s AA is Menard County, and includes two block-numbering areas (BNAs). One is designated moderate-income, while the other is middle-income. There are no low- or upper-income tracts in the AA. The distribution of families by income levels in the AA is 34% low-income, 22% moderate-income, 19% middle-income, and 25% upper-income. 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 1990 U.S. Census, the population of the AA is 2,252. Additional demographic and economic characteristics of the AA are presented in the table on the following page.

The AA includes one other financial institution. The Bevans State Bank of Menard, an independent state-chartered community bank, has one location in Menard and has total assets of \$18 million as of June 30, 2003. Other banks in communities such as Eden, Mason, Junction, and Brady are located within a 40-mile radius of Menard.

This office conducted a community contact with a local government official. The contact identified commercial, residential mortgage, and home improvement loans as credit needs in Menard County. The contact made favorable comments about the performance of MNB and its participation in the community.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	629
Number of Households	938
Geographies	
Number of Census Tracts/BNAs	2
% Low-Income Census Tracts/BNAs	0
% Moderate-Income Census Tracts/BNAs	50%
% Middle-Income Census Tracts/BNAs	50%
% 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
Economic Indicators	
Unemployment Rate-AA July 2003	4.9%
Unemployment Rate-State July 2003	6.6%
Unemployment Rate-National July 2003	6.2%
2002 Median Housing Value	\$31,854
% of Households Below Poverty Level	28%

SAMPLING INFORMATION

Our review focused on MNB's three main product lines: commercial, residential mortgage, and agricultural 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 to Businesses and Farms of Different Sizes*, we omitted the loans made outside of the AA and added loans to get a minimum sample size of 20 loans per product line. All loans sampled were originated between September 1, 1999 and December 31, 2002.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

MNB has demonstrated satisfactory 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 reasonable given the bank's size, financial condition, and AA credit needs. Of the ten banks headquartered in surrounding counties, MNB has the ninth highest average LTD ratio. First State Bank-Paint Rock has a branch in the San Angelo, Texas MSA. In October 2001, Eden State Bank merged with First State Bank of Rankin that later became a branch of Eden State Bank. We also noted that MNB's deposit base contained \$2.5 million in public funds at June 30, 2003. Refer to the table below for a comparative analysis of other financial institutions.

Institution	Assets as of June 30, 2003 (000s)	Average Quarterly LTD Ratio 9/30/99 – 6/30/03
Mason National Bank	54,976	84%
Brady National Bank	57,487	72%
The Commercial Bank of Mason	17,677	58%
First State Bank-Paint Rock	40,907	58%
The Bevans State Bank of Menard	17,931	55%
Eden State Bank	36,468	55%
First National Bank of Eldorado	38,391	53%
First State Bank-Junction	34,688	49%
Menard National Bank	27,031	48%
Junction National Bank	40,490	46%

Lending in Assessment Area

A substantial majority of the bank's lending-related activities are within the AA. From our sample, we determined that 93% of loans by number (83% by dollar volume) are made to borrowers located within the AA. The table on the next page shows the bank's lending activities in and out of the AA by type of loan sampled. This reflects an excellent record of providing credit services within the AA.

Total Loans Reviewed								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial	18	90	1,796	77	2	10	526	23
Residential RE	19	95	819	91	1	5	85	9
Agricultural	19	95	587	94	1	5	40	6
Total Reviewed	56	93	3,202	83	4	6	651	17

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

The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses and farms of different sizes. A sample of 20 combined commercial and commercial real estate loans, 30 residential mortgage loans, and 20 agricultural loans made within the AA were used for this evaluation. In order to get a better analysis of lending to borrowers of different income levels and the reasons for the low penetration of residential mortgage loans to low-income families, we expanded the residential mortgage loan sample from 20 to 30 loans. 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 below and on the following page illustrate the lending distribution to farms and businesses located within the bank's AA. A small business or a small farm is defined as a business or farm with gross annual revenues of less than \$1 million.

Borrower Distribution of Loans To Businesses (Non-Farm)		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	95	5
% of Bank Loans in AA (by number)	95	5
% of Bank Loans in AA (by \$)	87	13

The above table shows that MNB made 95% of the number of loans and 87% 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)	100	0
% of Bank Loans in AA (by \$)	100	0

The above table shows that MNB made 100% of the number of loans and dollar volume of sampled loans to farms earning less than \$1 million in gross revenues. The figures highlight the bank's strong commitment to these borrowers.

Distribution of Borrowers by Income Level Residential RE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	34		22		19		25	
LOANS BY YEAR	% of Number	% of Amount						
1999	0	0	0	0	3	4	7	4
2000	3	2	7	3	10	6	12	14
2001	7	2	7	2	7	7	10	18
2002	7	1	10	4	3	4	7	29
Total	17	5	24	9	23	21	36	65

As noted above, the MNB's record of residential mortgage lending to moderate-income families is reasonable. The bank's level of residential real estate lending to low-income borrowers is lower, but the 2002 demographics data shows that 28% of households in the AA are below the poverty level. Families living below the poverty level are less likely to have the resources to qualify for a residential real estate loan. Our expanded sample contained five loans for residential mortgages to low-income borrowers. Management's internal analysis also identified 26 consumer loans totaling \$37 thousand to low-income borrowers for home repairs or improvements.

Other mitigating factors were also taken into consideration. Due to the nature of the community, many residents, including low-income families, have inherited their homes from parents. Many homes are passed on from generation to generation. There is hardly any new construction in Menard, Texas. The community contact stated that business development and affordable housing are greatly needed by the community.

Geographic Distribution of Loans

The geographic distribution of loan originations within the AA reflects excellent dispersion throughout the AA. As previously noted, the bank's AA includes two block-numbering areas (BNAs). One is designated moderate-income, while the other is middle-income. There are no low- or upper-income tracts in the AA. The tables that follow on the next two pages illustrate the lending distribution of the sampled commercial, agricultural, and residential real estate loans originated in the AA during the evaluation period.

Distribution of Business Loans (Non-Farm) by Tract Income Level								
Census Tract Income Level	LOW (None)		MODERATE		MIDDLE		UPPER (None)	
% of AA Tracts	0		50		50		0	
% of AA Businesses	0		51		49		0	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
1999	0	0	15	14	10	12	0	0
2000	0	0	5	2	20	45	0	0
2001	0	0	15	3	15	7	0	0
2002	0	0	10	17	0	0	0	0
Totals	0	0	55	36	45	64	0	0

Distribution of Farm Loans by Tract Income Level								
Census Tract Income Level	LOW (None)		MODERATE		MIDDLE		UPPER (None)	
% of AA Tracts	0		50		50		0	
% of AA Farms	0		0		100		0	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
1999	0	0	0	0	25	25	0	0
2000	0	0	0	0	25	19	0	0
2001	0	0	0	0	10	7	0	0
2002	0	0	0	0	40	49	0	0
Totals	0	0	0	0	100	100	0	0

Distribution of Borrowers by Tract Income Level Residential RE								
Census Tract Income Level	LOW (None)		MODERATE		MIDDLE		UPPER (None)	
% of AA Tracts	0		50		50		0	
% of Owner Occupied Housing	0		75		25		0	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
1999	0	0	12	9	0	0	0	0
2000	0	0	33	24	0	0	0	0
2001	0	0	25	25	3	6	0	0
2002	0	0	24	33	3	3	0	0
Total	0	0	94	91	6	9	0	0

Responses to Complaints

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

Fair Lending Review

An analysis of 1999 – 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 August 2, 1999.