

Public Disclosure

August 2, 1999

Community Reinvestment Act Performance Evaluation

**Menard National Bank
Charter Number 22837**

**201 Ellis
Menard, Texas 76859**

**Office of the Comptroller of the Currency
Southwestern District
San Antonio North Field Office
10101 Reunion Place Boulevard, Suite 402
San Antonio, Texas 78216-4160**

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 **Menard National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of August 2, 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 rated **Satisfactory**.

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

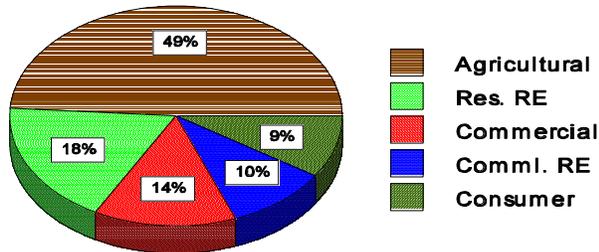
- C The bank's loan-to-deposit ratio meets the standard for satisfactory performance, averaging 43% since the previous CRA examination.
- C The bank makes a majority of its loans within the assessment area.
- C The distribution of borrowers reflects a reasonable penetration among individuals of different income levels and businesses and farms of different sizes.
- C The bank's geographic distribution of lending shows a strong penetration to the moderate-income portion of the assessment area.

Description of Institution

Menard National Bank (MNB), a \$21 million financial institution, is one of two banks headquartered in

Loan Portfolio Composition

As of March 31, 1999



the assessment area. Menard Bancshares owns 100% of the bank's common stock. This one-bank holding company is locally owned. The bank has one location. The bank owns no automatic teller machines. MNB is a full service bank and offers a variety of loan products with an emphasis on agricultural loans. As of March 31, 1999, agricultural loans totaled 49% of the bank's \$8 million loan portfolio. Residential real estate loans represented 18%. Commercial and commercial real estate loans totaled 14% and 10%, respectively. Consumer loans make up the remaining 9%.

The bank's financial condition, size, local economic conditions, and other factors allow it to help meet the credit needs of its assessment area. MNB has not opened or closed any branches since the last examination. At the previous CRA examination dated May 30, 1996, MNB received a satisfactory rating.

Description of Assessment Area

The bank's assessment area consists of Menard county and includes two block numbering areas (BNA's). One is designated moderate-income, while the other is middle-income.

The city of Menard is a small rural community in Menard county with a population of about 1,600. Over 2,200 people live in Menard county. Menard is roughly 60 miles south of San Angelo and 180 miles northwest of San Antonio. The economy is dominated by agriculture with goat, sheep, and cattle being the primary industries. The agricultural economy has suffered in recent years because of drought and unstable livestock prices.

The Texas 1999 nonmetropolitan median family income is \$33,900. Of all families in the assessment area, 34% are low-income, 22% are moderate-income, 19% are middle-income, and 25% are upper-income.

Examiners made a community contact with the local office of the Farm Service Agency. The contact revealed no unmet credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Management has demonstrated satisfactory performance in meeting the credit needs of the assessment area, including low- and moderate-income families.

Loan-to-Deposit Ratio

The bank's level of lending is satisfactory compared to other rural community banks located in surrounding counties. For the last 12 quarters ending March 31, 1999, the bank's average loan-to-deposit ratio equals 43%. This compares to the average loan-to-deposit ratio of 48% for the seven rural community banks headquartered in Menard and surrounding counties. Of the eight banks, MNB has the fifth highest average loan-to-deposit ratio. The other banks have average loan-to-deposit ratios ranging from 37% to 66%. The only other bank headquartered in the assessment area has an average loan-to-deposit ratio of 54%.

Lending in Assessment Area

Based on samples of loans made since the previous CRA examination, MNB extends a majority of its loans within the assessment area. The bank made all 20 residential real estate loans examiners sampled within the assessment area. The bank made 90% of the 20 consumer loans sampled within the assessment area. Examiners found 80% of both the 10 commercial loans and 10 agricultural loans sampled were made within the assessment area.

Based on the loan samples taken, the percentages of loans made in the assessment are listed below. The bank made a low level of commercial loans in the assessment area based on dollar volume because of one large out-of-area loan in our sample.

Percentage of Loans in Assessment Area		
	By number	By dollar volume
Residential	95%	100%
Consumer	90%	98%
Commercial	80%	34%
Agricultural	80%	98%

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

The distribution of loans to borrowers of different income levels demonstrates satisfactory lending efforts to low- and moderate-income borrowers. Examiners reviewed samples of the bank’s primary product lines, including agricultural, commercial, consumer and residential real estate loans. Examiners sampled loans originated since the previous CRA examination. Based on this information, the bank lends to borrowers of various income levels and does not arbitrarily exclude any income group.

Of the 20 consumer loans sampled since the last CRA examination, the bank made 50% to borrowers with low-incomes and 15% to borrowers with moderate-incomes. MNB also made 50% of the dollar volume of these loans to low-income families and 6% to moderate-income families. These numbers compare favorably to 34% of all families in the assessment area having low-incomes and 22% having moderate-incomes. The bank’s level of residential real estate lending to low- and moderate-income borrowers is lower. Examiners reviewed 20 residential real estate loans made since the previous CRA examination. The bank made 10% of the number of real estate loans to borrowers with low-incomes and 30% to borrowers with moderate-incomes. Below is a breakdown of the bank’s consumer and residential real estate loans by borrower income level, compared to the percentage of families in the assessment area with those incomes.

Loan Sample Distribution by Income Group										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total # of Families	
Families	34%		22%		19%		25%		100%	
Loan Type	#	%	#	%	#	%	#	%	#	%
Consumer	10	50	3	15	4	20	3	15	20	100
Residential	2	10	6	30	5	25	7	35	20	100

The bank adequately lends to businesses of different sizes, with a significant number of loans made to small businesses. Based on a sample of 10 commercial loans, the bank made 30% of its commercial loans to businesses with gross annual revenues under \$100,000. Only one of the borrowers sampled had gross revenues greater than \$1 million. The bank also makes its agricultural loans primarily to small farms. The bank made 70% of the 10 agricultural loans sampled to farms with gross annual revenues under \$100,000, including 40% to farms with gross revenues less than \$50,000. All of the agricultural loan customers sampled had annual gross revenues of less than \$500,000. A breakdown of the examiners' commercial loan sample by gross annual revenues follows.

Distribution of Loans by Gross Revenues				
Gross Revenues	Commercial		Agricultural	
	# of Loans	Percent	# of Loans	Percent
\$50,000 & Under	1	10%	4	40%
From \$50,001 to \$100,000	2	20%	3	30%
From \$100,001 to \$250,000	0	0%	2	20%
From \$250,001 to \$500,000	3	30%	1	10%
From \$500,001 to \$750,000	2	20%	0	0%
From \$750,001 to \$1,000,000	1	10%	0	0%
Over \$1,000,000	1	10%	0	0%
TOTAL	10	100%	10	100%

Geographic Distribution of Loans

The bank's geographic distribution of loan originations in the assessment area is reasonable. Of the 20 residential real estate loans sampled that were made within the assessment area, all but one, or 95%, were made in the moderate-income BNA. This compares to 75% of the owner occupied housing units in the assessment area that are located in that BNA. Of the 18 consumer loans sampled that were made in the assessment area, MNB made 17 (94%) in the moderate-income BNA. This figure compares to 74% of all families in the assessment area living in the moderate-income area. The following table illustrates the bank's geographic distribution of loans based on the loan samples taken

by examiners by number and dollar volume.

Geographic Distribution of Loans Sampled				
	Moderate-income BNA		Middle-income BNA	
Loan Type and Comparison	% by #	% by \$	% by #	% by \$
Residential loans	95%	99%	5%	1%
Percent of owner-occupied units	75%		25%	
Consumer loans	94%	96%	6%	4%
Percent of families in BNA	65%		35%	

The distribution of commercial and agricultural loans is also reasonable. Of the eight commercial loans sampled that were made within the assessment area, all but one was made in the moderate-income BNA. All seven of the agricultural loans sampled that were made within the assessment area were in the middle-income BNA. This is reasonable because the town of Menard makes up the moderate-income BNA. All agricultural loan demand is in the middle-income tract, which is the rural part of the county.

Response to Complaints

The bank received no CRA-related complaints since the previous CRA examination.

Compliance with Anti-Discrimination Laws and Regulations

Based on our review, the bank is in compliance with all provisions of antidiscrimination laws and regulations. Examiners found no evidence of disparate treatment.