

PUBLIC DISCLOSURE

February 1, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Menard Bank

RSSD# 375650

201 Ellis Street
Menard, Texas 76859

Federal Reserve Bank of Dallas

2200 N. Pearl Street
Dallas, Texas 75201

NOTE: This document is an evaluation of this bank'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 bank. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this bank. The rating assigned to this bank does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial bank.

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INSTITUTION'S CRA RATING

Menard Bank (bank) is rated **Outstanding**. This rating is based on the following conclusions with respect to the performance criteria:

- The bank's net loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.
- A substantial majority of the bank's loans are originated inside the assessment area.
- Lending reflects an excellent penetration among farms of different sizes.
- The bank participated in community development activities by providing investments, donations, and services that support local organizations.
- The bank's community development enhances credit availability in the assessment area.

SCOPE OF EXAMINATION

The Federal Financial Institutions Examination Council's (FFIEC) Interagency Examination Procedures for Small Institutions were utilized to evaluate the bank's CRA performance. The evaluation considered CRA performance context, including the bank's asset size, financial condition, business strategy and market competition, as well as assessment area demographic and economic characteristics, and credit needs. Lending performance was assessed within Menard County. The following data was reviewed:

- The bank's 25-quarter average LTD ratio,
- Menard Bank's CRA performance was evaluated for the period from January 1, 2020 through December 31, 2020. A statistically derived sample of 41 small farm loans was selected from a universe of 52 loans. Due to small farm loans being the largest number of originations by volume during the review period, small farm loans is considered the primary product to be reviewed.

The evaluation of the bank's lending includes the use of and comparison to demographic characteristics. The primary sources for the demographic information are the U.S. Census and Dun & Bradstreet (D&B) data. Demographic characteristics of a particular assessment area are useful in analyzing the bank's record of lending as they provide a means of estimating loan demand and identifying lending opportunities. To understand small farm loan demand, self-reported data of revenue size and geographical location from farm entities is collected and published by D&B. The demographic data should not be construed as defining an expected level of lending in a particular area or to a particular group of borrowers. The information is used to understand the bank's performance context and evaluate the bank.

DESCRIPTION OF INSTITUTION

The bank is an intrastate bank headquartered in Menard, Texas. Menard Bancshares a one-bank holding company, owns 100% of bank. The bank's assessment area is the entirety of Menard County, Texas. The assessment area has not changed since the last evaluation. The bank's primary lending products are agriculture, commercial, and residential mortgage loans. The bank has not introduced any new products since the last evaluation. No mergers or acquisitions have occurred since the previous evaluation. The bank operates one full-service location in its assessment area. The bank has no loan production offices or limited service branches. The bank

does not have any ATMs. As of June 2, 2015, the bank closed its two off-site ATMs. The bank received an Outstanding rating for CRA at its last evaluation dated October 6, 2014.

The bank's business hours are:

Menard Bank's hours of operation are Monday thru Friday as follows:	
Lobby Hours:	9:00 am - 12:00 pm 1:00 pm - 3:00 pm
Drive-thru:	8:30 am - 4:00 pm
Lobby and Drive-Thru are closed Saturday and Sunday	
Telebank-TelePC:	24 Hour service
Internet Banking	24 Hour service

Menard Bank has no other branch locations aside from its main office. The bank offers traditional banking products and services to its customers, including online and phone banking, wire transfers, and ATM/Debit cards.

As of September 30, 2020, the bank reported total assets of \$74.1 million, gross loans of \$13.6 million, total deposits of \$67.8 million, and a 25-quarter average LTD ratio of 39.5%. The following table reflects the loan portfolio mix:

Loan Portfolio Mix & Asset Size (\$ in thousands)		
	09/30/2020	% of Gross Loans
Total Assets	\$74,073	
Residential RE	\$3,348	24.68%
Commercial	\$4,915	36.22%
Ag	\$4,957	36.53%
Consumer	\$348	2.56%
Gross Loans	\$13,568	
Net Loans	\$13,363	
Note: Net Loans equals Gross Loans, net of unearned income and the Allowance for Loan and Lease Losses.		

There are no known legal, financial, or other factors impeding the bank's ability to help meet the credit needs in its communities.

DESCRIPTION OF ASSESSMENT AREA

Menard Bank delineated Menard County, a non-Metropolitan Statistical Area, as its assessment area (see Appendix A for an Assessment Area map).

According to the FFIEC, the assessment area consists entirely of one middle-income census tract with a 2020 estimated median family income of \$59,100, and an estimated population for Menard County of 2,182.

The market is non-competitive as there is only one other bank in the market area and Menard Bank dominates the market holding 81.3% of the deposit market share. Within the county, the two financial institutions each operate one branch.

According to the FFIEC, Menard County’s sole census tract has been identified as a distressed and underserved nonmetropolitan middle-income geography. This geography is distressed due to poverty. A nonmetropolitan middle-income geography is designated as distressed if it is in a county that meets certain unemployment, poverty, or population loss triggers. A nonmetropolitan middle-income geography is designated as underserved if it meets criteria for population size, density, and dispersion that indicate the area’s population is sufficiently small, thin, and distant from a population center and that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs. This geography is underserved because it is remote and rural.

Income Characteristics

The total number of households that make up the assessment area for 2020 are 628. The low-income families represent 26.9%, moderate-income 21.3%, middle-income 19.5%, upper-income 32.1% and families below poverty represent 9.3%. From years 2016 to 2020, the family median income has consistently increased for residents in the assessment area, ranging from \$52,400 to \$59,100.

According to the Bureau of Labor Statistics, the highest paying industries in the assessment area include Mining, Quarrying, and Oil and Gas Extraction, with an average salary of \$91,591, followed by Utilities at \$76,288, and Public Administration at \$40,052.

The median family income for 2020 is shown below.

Income Level	2020
Median Family Income	\$59,100
Low-income	< \$29,550
Moderate-income	\$29,550 < \$47,280
Middle-income	\$47,280 < \$70,920
Upper-income	≥ \$70,920

Housing Characteristics

According to the FFIEC, the assessment area consisted of 1,725 total housing units with 677 owner-occupied, 274 rental units, and 774 vacant units. The median age of housing stock is 59 years old, and the median housing value is \$56,185. In comparison, the state of Texas' median housing value is \$136,000. Although the housing value in the assessment area is substantially less than the state of Texas, for 35.0% of renters, rent exceeded 30.0% of income. In addition, the affordability ratio of 60.9% is almost double compared to the state of Texas at 39.1%, depicting a large part of the assessment area residents can afford housing.

Employment and Economic Conditions

The primary industries in Menard County are construction, education services, and agriculture. Agriculture loans have declined while commercial loans have increased. Commercial loans could be adversely impacted economically by the current national pandemic. In addition, the assessment area has only one census tract which is distressed due to poverty and underserved due to the rural location.

The unemployment rate has trended upward since the last evaluation for Menard County, compared to the state of Texas for 2020.

Annual Average Unemployment Rate	
Area	2020
Menard County	8.2%
State of Texas	6.9%

Community Contacts and Community Development Opportunities

Contact was made with community leaders working in the economic development industry. The contact stated the community needs financial literacy programs and small dollar farm and business loans. Additionally, the contacts mentioned the assessment area is experiencing a decline in population due to the lack of new businesses entering the area and the relocation of existing workforce to neighboring cities to work in oil production. The lack of job opportunities causes many residents to leave the area to find work out of town.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Net Loan-to-Deposit Ratio

This performance criterion evaluates the bank's average LTD ratio to determine the reasonableness of lending in light of performance context, such as the bank's capacity to lend, the availability of lending opportunities, the demographic and economic factors present in the assessment area, and in comparison to similarly situated Federal Deposit Insurance Corporation insured institutions. The similarly situated institutions were selected based on asset size, product offerings, and market share.

The bank's quarterly LTD ratio is reasonable. The bank's LTD ratio is lower than the average LTD ratios with three similarly situated institutions. The bank's LTD ratio over the last 25-quarters

was 39.5%. Similarly situated banks have LTD ratios ranging from 61.7% to 75.1%. Bank management indicated the recent decline in the LTD ratio is attributed to a large influx of deposits belonging to one customer. Bank management is working to increase lending volume however, opportunities may be impacted given the county is both distressed and underserved. Management indicated that it would take time to find qualified borrowers in the assessment area. As of September 30, 2020, the bank's LTD ratio of 19.7% indicated a sharp decrease compared to the two previous quarters. This is primarily due to the significant influx of deposits from one depositor. Further adversely impacting the bank's point in time LTD ratio, is the recent payoff of several large farm loans. Although the bank's LTD ratio performance in the recent quarter is low based on the performance context, the low ratio does not adversely impact the bank's overall quarterly average LTD ratio performance. Management also indicated that they are seeking new lending opportunities to utilize the increase in deposits. Based on the services provided in the community, the bank demonstrates a significant volume in services assisting in the credit needs of the community.

The bank reported a community development investment of \$140 thousand. In addition, the bank has engaged in providing financial education seminars for the senior class at the Menard Independent School District and Menard Volunteer Fire Department.

Assessment Area Concentration

This performance criterion evaluates the percentage of lending extended inside and outside of the assessment area. A substantial majority of the bank's loans, by number and dollar volume, originated inside the assessment area.

The remaining analyses will be based on loans made inside the bank's assessment area.

Lending Inside and Outside the Assessment Area

Loan Types	Inside				Outside			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Small Farm	35	85.4	\$1,340	90.9	6	14.6	\$135	9.1
Total Small Farm related	35	85.4	\$1,340	90.9	6	14.6	\$135	9.1
TOTAL LOANS	35	85.4	\$1,340	90.9	6	14.6	\$135	9.1

Small Farm Lending

Geographic Distribution of Loans

The geographic analysis of loans would not be meaningful due to the bank's assessment area consisting of only one middle-income census tract.

Lending to Borrowers of Different Income Levels and Farms of Different Sizes

This performance criterion evaluates the bank's lending to borrowers of different income levels and farms of different revenue sizes. The bank's lending has an excellent penetration to farms of different sizes. Additionally, the bank originated a large percentage of its small farm loans in amounts of \$100,000 or less, which totaled 91.4% by number and 63.1% by dollar volume.

Distribution of 2020 Small Farm Lending By Revenue Size of Businesses					
Assessment Area: Menard County 2020					
	Bank Loans				% of Total Farms
	#	#%	\$	\$%	
By Revenue					
\$1 Million or Less	26	74.3	894	66.7	100.0
Over \$1 Million	1	2.9	140	10.4	0.0
Revenue Not Known	8	22.9	306	22.8	0.0
Total	35	100.0	1,340	100.0	100.0
By Loan Size					
\$100,000 or Less	32	91.4	845	63.1	
\$100,001 - \$250,000	3	8.6	495	36.9	
\$250,001 - \$500,000	0	0.0	0	0.0	
Total	35	100.0	1,340	100.0	
By Loan Size and Revenues \$1 Million or Less					
\$100,000 or Less	24	92.3	539	60.3	
\$100,001 - \$250,000	2	7.7	355	39.7	
\$250,001 - \$500,000	0	0.0	0	0.0	
Total	26	100.0	894	100.0	
<i>Source: 2020 FFIEC Census Data</i>					
<i>2020 Dun & Bradstreet Data</i>					
<i>2011-2015 U.S. Census Bureau: American Community Survey</i>					
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>					
<i>Note: One loan was originated over \$1M. D&B data is derived from public information and self-reported data so not every business and farm are accounted for in its reports</i>					

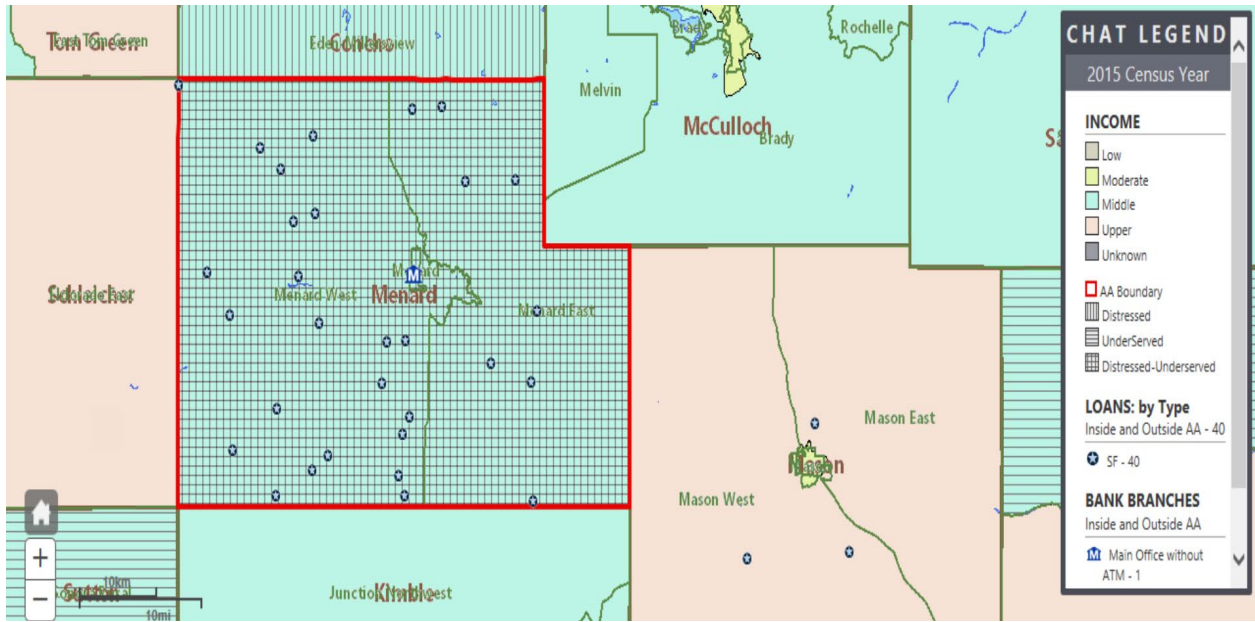
Response to Complaints

There were no complaints related to the CRA during the review period. Consequently, the bank’s performance in responding to complaints was not considered in evaluating its overall CRA performance.

Fair Lending or Other Illegal Credit Practices Review

An evaluation of the bank’s fair lending activities was conducted during the examination to determine compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

APPENDIX A – MAP OF THE ASSESSMENT AREA



APPENDIX B – DEMOGRAPHIC INFORMATION

Combined Demographics Report								
Assessment Area: Menard County								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0	0	0	0	0	169	26.9
Moderate-income	0	0	0	0	0	0	134	21.3
Middle-income	1	100	628	100	59	9.4	123	19.6
Upper-income	0	0	0	0	0	0	202	32.2
Unknown-income	0	0	0	0	0	0	0	0
Total Assessment Area	1	100.0	628	100.0	59	9.4	628	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	0	0	0	0	0	0	0	0
Moderate-income	0	0	0	0	0	0	0	0
Middle-income	1,725	677	100	39.2	274	15.9	774	44.9
Upper-income	0	0	0	0	0	0	0	0
Unknown-income	0	0	0	0	0	0	0	0
Total Assessment Area	1,725	677	100.0	39.2	274	15.9	774	44.9
	Total Businesses Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	0	0	0	0	0	0	0	0
Moderate-income	0	0	0	0	0	0	0	0
Middle-income	70	100	62	100	5	100	3	100
Upper-income	0	0	0	0	0	0	0	0
Unknown-income	0	0	0	0	0	0	0	0
Total Assessment Area	70	100.0	62	100.0	5	100.0	3	100.0
Percentage of Total Businesses:				88.6		7.1		4.3
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	0	0	0	0	0	0	0	0
Moderate-income	0	0	0	0	0	0	0	0
Middle-income	35	100	35	100	0	0	0	0
Upper-income	0	0	0	0	0	0	0	0
Unknown-income	0	0	0	0	0	0	0	0
Total Assessment Area	35	100.0	35	100.0	0	.0	0	.0
Percentage of Total Farms:				100.0		.0		.0

2020 FFIEC Census Data and 2020 D&B Information

APPENDIX C – GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/AA.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies, designated disaster areas; or designated distressed or underserved nonmetropolitan middle-income geographies.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-scope review: Performance is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/AA.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Reports of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.