

**PUBLIC DISCLOSURE**

November 1, 1999

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**Northeast National Bank  
Charter Number: 21059  
1438 Oates Drive  
Mesquite, Texas 75150**

**Office of the Comptroller of the Currency  
Dallas South Field Office  
1600 Lincoln Plaza  
500 North Akard  
Dallas, Texas 75201-3394**

**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 Community Reinvestment Act (CRA) performance of **Northeast National Bank** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of November 1, 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**.

The following factors support this overall rating:

- The assessment area comprised of census tracts in Dallas, Collin, Kaufman and Rockwall Counties does not arbitrarily exclude low or moderate income areas
- The average loan to deposit ratio of Northeast National Bank is higher than other locally owned banks doing business in the assessment area.
- The majority of loans sampled, which included small businesses, construction and development, residential real estate and consumer loans were originated within the assessment area.
- Lending reflects a reasonable distribution of loans to small businesses. A reasonable distribution of loan is also reflected to individuals of different income levels.
- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area, including low and moderate-income census tracts.

The following table shows the performance level of Northeast National Bank, Mesquite, Texas, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	NORTHEAST NATIONAL BANK PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	Northeast. National Bank did not receive any complaints concerning its CRA performance.		

### Scope of the Examination

This performance evaluation is based upon an analysis of Northeast National Bank, Mesquite, Texas (Northeast) CRA performance between the period beginning April 9, 1996 through November 1, 1999. This performance evaluation is limited to an analysis of Northeast lending in the assessment area, which is 145 census tracts in portions of Dallas, Collin, Rockwall, and Kaufman counties.

### Description of Institution

Northeast is a \$41 million community bank that is 100% owned by the Northeast Bancshares Delaware, Incorporated a single bank holding company. Northeast Bancshares Delaware, Incorporated is 100% owned by Northeast Bancshares, Incorporated a Texas corporation headquartered in Mesquite, Texas.

Northeast’s main office is located at 1438 Oates Drive, Mesquite, Texas, in census tract 181.13 of Dallas County. Census tract 181.13 is a middle income census tract that is surrounded by a majority of middle and upper income census tracts. Northeast’s main office has several walk-up and drive-up teller windows. An automatic teller machine is located on-site and is available to the public 24 hours a day.

A branch office of Northeast was opened at 4402 Broadway, Garland, in March 1996, approximately 5 miles from the main office. This branch was closed in July 1999. The automatic teller machine remains operational at this site. Cards to access the teller machines are offered to all checking account customers.

Northeast offers credit products commensurate with its size and the credit needs of the assessment area. Owner and non-owner occupied residential real estate, construction/development, commercial and consumer loans are the primary loan products. Northeast has several competitors including branches of large multi-state and regional banks, savings and loans, credit unions and locally owned state and national banks. Northeast was rated Satisfactory in the previous CRA public evaluation April 9, 1996.

Northeast entered into a formal agreement with the Comptroller of the Currency on August 12, 1998. The agreement requires Northeast to adopt and maintain policies, procedures and guidelines for various segments of its banking operations. The agreement also requires Northeast to closely monitor asset quality and to reduce the risk associated with the loan portfolio. The signing of this agreement and the efforts required to maintain full compliance, may have been an impediment to Northeast’s performance under the CRA.

<b>Northeast Office Hours</b>		
	Main Lobby	Drive-up
Monday - Thursday	9:00am.--3:00pm.	7:00am.--6:00pm.
Friday	9:00am.--6:00pm.	7:00am.--6:00pm.
Saturday	None	9:00am.--12:00pm.

## Description of Assessment Area

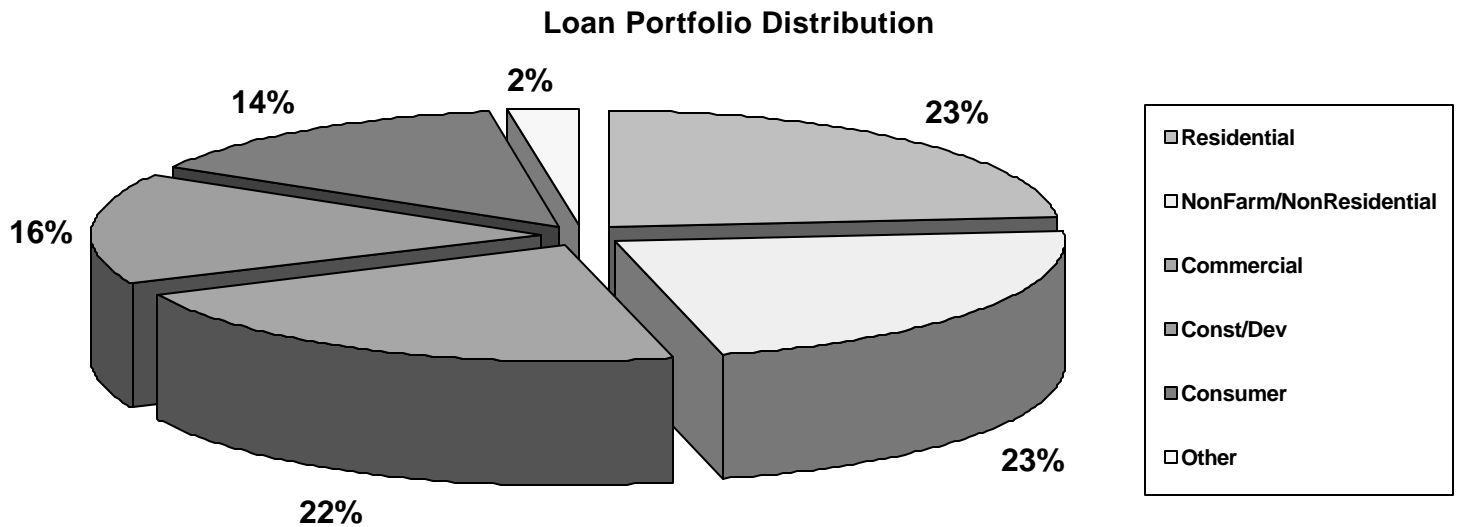
Northeast's assessment area, which consists of 145 census tracts located in portions of Dallas, Collin Rockwall, and Kaufman counties, does not arbitrarily exclude any low- or moderate-income areas. The assessment area includes the city of Mesquite, Texas where the main office is located. Mesquite, Texas is approximately 15 miles east of Dallas, to the north of Interstate 30 and east of Interstate 635. The majority of households in the assessment area are located in the middle and upper income census tracts.

<b>ASSESSMENT AREA DEMOGRAPHICS</b>		
<b>Income Characteristics</b>	<b># of BNA=s</b>	<b>% of Households in Each BNA</b>
<b>Low</b> < 50% of Median	<b>1</b>	<b>.4%</b>
<b>Moderate</b> 50%-80% of Median	<b>26</b>	<b>20.1%</b>
<b>Middle</b> 80%-120% of Median	<b>72</b>	<b>51.7%</b>
<b>Upper</b> > 120% of Median	<b>46</b>	<b>27.8%</b>
<b>Total</b>	<b>145</b>	<b>100%</b>
<b>Median refers to HUD median family income</b>		

As of the 1990 census, approximately 774 thousand people reside in the assessment area. The majority of the population (91%) resides in Dallas County. Based upon 1998 Housing and Urban Development (HUD), information, the weighted average median family income for the Metropolitan Statistical Areas (MSA) is \$58,200. The largest employers in the assessment area are Frito Lay, Alcan Building Products, Fritz Chemical Company, Lucent Technologies and Pepsi Cola Company.

### Conclusions with Respect to Performance Criteria:

We reviewed all residential real estate loans originated in 1997, 1998 and year to date 1999. We selected a random sample of commercial loans (including construction/development) and consumer loans originated during 1997, 1998 and 1999. These particular loan products were selected because they represent Northeast's primary loan products as of 9/30/99.



### Loan-to-Deposit Ratio

Northeast's loan-to-deposit ratio exceeds the standards for satisfactory performance given the size, financial condition and supervisory constraints and credit needs of the assessment area. Northeast's average loan-to-deposit ratio for the past 14 quarters was 80%. To assess performance in this category, Northeast's average loan-to-deposit ratio was compared to other banks of similar size, locally chartered and doing business in the assessment area. The average loan-to-deposit ratio going back to the previous CRA examination was calculated for the comparison.

Four other local banks of comparable size (total assets, between \$50 million and \$125 million) were used in the comparison. The average loan-to-deposit ratio of local peer banks for the past 14 quarters was 70%, which is 10 percentage points lower than Northeast's average for the same period.

## Lending in the Assessment Area

Northeast meets the standards for satisfactory performance in lending within its assessment area. We reviewed a sample of residential, commercial including construction and development and consumer loans.

ASSESSMENT AREA LENDING					
Loan Type	Total Sampled	# of Loans in AA	% of # Loans in AA	Amount (\$000s)	% of Amount
Consumer	50	25	50%	376	51%
Residential	83	39	47%	1,763	35%
Commercial	30	19	63%	4,681	71%
<b>Total</b>	<b>163</b>	<b>83</b>	<b>51%</b>	<b>6,820</b>	<b>55%</b>

As shown in the table above, the majority of loans, 51% were originated to borrowers that reside within the assessment area.

## Lending to Businesses of Different Sizes

Northeast meets the standards for satisfactory performance in lending to businesses of different sizes. Loans secured by small businesses and small farms are defined as loans originated for commercial businesses with gross revenue of \$1.0 million or less; small farm loans are defined as loans to farms with gross revenue of \$500 thousand or less. Based on our sample of 30 business loans, 33% were originated to small businesses.

## Lending to Borrowers of Different Incomes

The review of consumer and residential loans shows that Northeast meets the standards for satisfactory performance. The chart shown below illustrates the distribution of loans to borrowers of different income levels.

<b>Distribution of Loans to Borrowers of Different Incomes</b>					
<b>Income Level</b>	<b>% of Families by Income Level</b>	<b>Residential Real Estate</b>		<b>Consumer</b>	
		<b># Loans</b>	<b>%</b>	<b># Loans</b>	<b>%</b>
<b>Low</b>	16%	1	3%	4	16%
<b>Moderate</b>	18%	6	16%	8	32%
<b>Middle</b>	23%	12	31%	1	4%
<b>Upper</b>	43%	19	50%	12	48%
<b>TOTAL</b>	100%	38	100%	25	100%

As illustrated in the table above, a reasonable percentage of residential real estate loans and consumer loans, were originated to low income borrowers, based upon the loans sampled. This level of penetration is reasonable, given the percentage of low-income families residing in the assessment area and the level of competition from other banks. Loans originated to moderate-income borrowers also shows reasonable penetration.

## Geographic Distribution of Loans

Distribution of loans within the assessment area meets the standards of satisfactory performance. A reasonable disbursement of loans in census tracts within the assessment area. Based upon the sample of loans Northeast made loans in 33% of the census tracts included in the assessment area. Lending occurred in the one low-income census tract and in 35% of the moderate-income tracts included in the assessment area. This disbursement of loans is reasonable considering the size and number of branch locations serving the assessment area.



## **Response to Complaints**

There were no complaints filed during the review period that pertain to the CRA.

## **Compliance with Discrimination Laws**

A fair lending review was performed concurrently with this CRA examination. Examination results revealed satisfactory compliance with fair lending regulations. We noted no practices intended to discourage or impede potential borrowers from applying for credit.