



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

Southwestern District
1600 Lincoln Plaza
500 North Akard
Dallas, Texas 75201-3394

PUBLIC DISCLOSURE

April 17, 2000

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Mercantile Bank, N.A.
Charter Number: 23466
6071 Sherry Lane
Dallas, Texas 75225**

**Office of the Comptroller of the Currency
Dallas North 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 **First Mercantile Bank, N.A.** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of April 17, 2000. 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:

- Ë The bank's quarterly average loan-to-deposit ratio of 69% exceeds the standards for satisfactory performance given the bank's size, financial condition, and assessment area credit needs.
- Ë Of the mortgage and business loan originations sampled, 79% were located within the bank's assessment area.
- Ë Of the commercial loans sampled, 85% were originated to businesses with revenues of less than \$1.0 million.
- Ë There is no evidence of illegal discrimination.
- Ë There are no CRA complaints filed against the bank.

SCOPE OF THE EXAMINATION

This evaluation of First Mercantile Bank, N.A.'s (FMB) CRA performance covers the period from the bank's opening on January 29, 1998, until April 17, 2000. The evaluation includes an analysis of FMB's designated assessment area and the bank's lending patterns.

DESCRIPTION OF INSTITUTION

FMB is a wholly owned subsidiary of Mercantile Delaware Bancorp, Inc., a Delaware corporation, which is wholly owned by Mercantile Bancorp, Inc., a Texas one-bank holding company. There are no financial or legal obstacles affecting FMB's ability to meet community credit needs. They operate out of

a main office and two branch offices, serving counties within the Dallas metropolitan statistical area (MSA) 1920 and the Fort Worth/Arlington MSA 2800. Each office has a nondeposit ATM. The main office and one of the branches are located in upper-income census tracts. Primary competition consists of branches of large national banks and state banks in the area.

As of December 31, 1999, FMB had total assets of \$117 million. The principal lending focus includes commercial lending to small and medium size businesses, interim construction, and commercial real estate lending. The bank provides owner-occupied small business facility loans and lines of credit to its community. While not the bank's primary target, they also offer consumer and real estate credit products. The following table portrays the principal loan mix of FMB:

TYPES OF DOMESTIC LOANS OUTSTANDING(\$000'S)		
DECEMBER 31, 1999		
<i>TYPE OF LOANS</i>	<i>AMOUNT</i>	<i>PERCENTAGE</i>
Commercial Loans	39,420	49%
Construction & Land Development	18,804	23%
Secured by 1-4 Family Residential Properties	13,810	17%
Installment	5,950	7%
Credit Cards	1,224	2%
All other loans (excludes consumer)	1,190	2%
TOTAL	80,398	100%

In addition to traditional banking services, FMB is a principal sponsor and actively involved with *The John C. Ford Program, Inc.* (JCFP), which is a private non-profit 501 (c)(3) Corporation. The purpose of the program is to enhance knowledge and economic self-sufficiency of low-to-moderate income residents. In 1999, FMB and five other financial institutions in the area formed the *Bankers Working Capital Coalition, Inc.*, a Community Development Corporation (CDC). The purpose of the CDC is to meet the micro-loan needs of graduates of the *Peoples Business College Education Program* sponsored by JCFP.

DESCRIPTION OF ASSESSMENT AREA

FMB has defined its assessment area as the following six counties: Dallas, Collin, Denton, Kaufman, Rockwall, and Tarrant. This consists of 798 census tracts. The assessment area meets regulatory guidelines and does not arbitrarily exclude any low- or moderate-income areas. The following table reflects the demographics for this assessment area.

ASSESSMENT AREA DEMOGRAPHICS			
<i>Designation</i>	<i># Census Tracts</i>	<i>% of Total Census Tracts</i>	<i>% of Families By Income Level of Census Tracts</i>
Low	88	11%	6%
Moderate	195	24%	22%
Middle	262	33%	38%
Upper	245	31%	34%
NA	8	1%	0%
TOTAL	798	100.00%	100.00%

More than 3.6 million residents populate the assessment area. Based on updated HUD-1999 Census information, the median family income for the Dallas MSA is \$57,222. The median housing value for the bank's assessment area is \$88,433, with the median age of housing stock at 29 years. Housing units in the assessment area include 89% occupied and 11% vacant. Of the occupied units, 50% are owner-occupied and 39% are rentals.

Unemployment rates have remained low and steady over the past two years at approximately 3%. The largest industries in the assessment area are healthcare, real estate, retail trade, and services. Some of the largest employer's in the bank's market area include the following: Exxon Mobile Corporation, J.C. Penney Co., Inc., Texas Instruments, GTE, Kimberly Clark Corporation, and Tandy Corporation.

We determined the credit needs of the community through discussions with management and community contacts. Management stated that the community credit needs are small business loans and personal banking services. The community representative from the city of Dallas stated that financial institutions are meeting community credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

A majority of FMB's loan portfolio consists of commercial loans, as this is their business focus. Therefore, more emphasis was placed on commercial lending performance for this evaluation. We did, however, review the bank's home mortgage lending since FMB was a reporter of home loans originating during 1999.

LOAN-TO-DEPOSIT RATIO

Given FMB's size, short operating history, financial condition, and assessment area credit needs, FMB exceeds the standards for satisfactory performance. The bank has been in operation for the past eight quarters. The eight-quarter average loan-to-deposit (LTD) ratio is 69%, which is reasonable.

We compared FMB's quarterly average LTD ratio to financial institutions within the assessment area: five that opened for business since January 29, 1998, and 20 that were similar in total asset size. Information for these financial institutions is detailed in the following table:

	Average Total Assets (000's) 12/31/99	Eight-Quarter Average LTD Ratio
Banks within the Dallas MSA and Fort Worth/Arlington MSA:		
Opened since January 1998	\$23,720	58%
Similar total asset size	\$118,116	66%

As noted above, FMB's quarterly average LTD ratio is slightly higher than peer banks. As of December 31, 1999, it had increased to 72%. For this same time period, the LTD ratio for peer banks ranged from a high of 88% to a low of 30%.

LENDING IN ASSESSMENT AREA

Based on our review of FMB's lending patterns, the bank exceeds the standards of satisfactory performance. All commercial loans sampled and a majority of home loans sampled were originated within the AA.

ASSESSMENT AREA LENDING					
Loan Type	Total Sampled	# of Loans in AA	% of # Loans in AA	Amount (\$000s) in AA	% of Amount in AA
Home Loans	158	121	77%	\$23,532	86%
Commercial Loans	20	20	100%	\$2,244	100%
Total	178	141	79%	\$25,776.00	88%

LENDING TO BUSINESSES OF DIFFERENT SIZES AND TO BORROWERS OF DIFFERENT INCOMES

The bank meets the standards for lending to businesses of different sizes and borrowers of different incomes. While lending to borrowers of different income levels needs improvement, more weight was given to performance in commercial lending since this is FMB's primary lending focus.

Businesses of Different Sizes

FMB's lending to businesses of different sizes is good. Seventy-two percent of the businesses in the bank's assessment area have revenues of less than \$1.0 million. We reviewed a sample of 20 commercial loans. FMB originated 17 of the 20, or 85% of the commercial loans within their assessment area to businesses with revenues of less than \$1 million.

Borrowers of Different Incomes

FMB's record of lending to borrowers of different income levels needs improvement. Our review of home mortgage lending within the bank's assessment area revealed originations to families classified as low-income of 0%, and moderate-income 17%, compared to census data which reflects 20% of families in the bank's assessment area classified low-income and 17% moderate-income.

GEOGRAPHIC DISTRIBUTION OF LOANS

FMB's geographic distribution of loans within the assessment area needs improvement. Performance in both low- and moderate-income tracts is weak. The following tables illustrate the geographic distribution of lending within the assessment area (AA).

Geographic Distribution of Commercial Loans					
Census Tract	# of loans	% of # of loans	\$ of loans	% of \$ of loans	% of all Businesses within the AA*
Low-income	2	3%	159	1%	7%
Moderate-income	7	12%	1,042	7%	25%
Middle-income	19	32%	3,393	22%	34%
Upper-income	31	52%	10,623	69%	34%
N/A	1	1%	175	1%	0%
Total	60	100%	15,392	100%	100%

*Represents the percentage of businesses that operate in assessment area.

Geographic Distribution of Home Mortgage Loans					
Census Tract	# of loans	% of # of loans	\$ of loans	% of \$ of loans	% Owner Occupied*
Low-income	0	0%	0	0%	4%
Moderate-income	11	9%	732	3%	19%
Middle-income	18	15%	3,300	14%	38%
Upper-income	92	76%	19,500	83%	39%
Total	121	100%	23,532	100%	100.00%

**Represents the percentage of homes owned by individuals residing in assessment area.*

COMPLIANCE WITH ANTIDISCRIMINATION LAWS

A fair lending review performed in conjunction with this CRA examination revealed satisfactory compliance with fair lending regulations. Based on the low level of consumer loans originated, our review focused on the bank's policy, procedures, and practices. We noted no practices intended to discourage or impede potential borrowers from applying for credit.

RESPONSE TO COMPLAINTS

FMB has not received complaints pertaining to CRA during this evaluation period.