



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 10, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank of Desoto, National Association
Charter Number 20415

2011 N. Hampton Road
Desoto, TX 75123

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Dallas 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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

Bank of Desoto, N.A. (BOD) has a Satisfactory record of meeting its community credit needs. The rating is based upon the following factors:

- BOD's average loan-to-deposit ratio of 69% meets the standards for satisfactory performance, and is commensurate with its size, competitive factors, and financial condition.
- BOD meets the standards for satisfactory performance in lending to borrowers within the assessment area. Our sample revealed that half of the number of originations were to borrowers residing in the assessment area.
- Lending to borrowers of different incomes and to businesses of different sizes reflect satisfactory performance.
- Lending to geographies of different income levels within the assessment area reflects excellent performance, notably in residential real estate which is a primary loan product.

SCOPE OF EXAMINATION

This evaluation covers the period between January 1, 2005 and June 30, 2009. To perform this evaluation, we used the Community Reinvestment Act small bank procedures. We reviewed a random sample of 25 consumer loans and 27 commercial real estate loans. In addition, we relied on HMDA data provided by CRA Wiz for our 1-4 family home purchase loan review. We also randomly sampled nine residential real estate loans originated during the review period for a limited data integrity review. These products were selected as they represent the largest percentages of loans in BOD's portfolio.

DESCRIPTION OF INSTITUTION

BOD is a wholly owned subsidiary of D Bancorp, Inc., a one bank holding company, headquartered in Desoto, Texas. The bank is situated 15 miles south of downtown Dallas. BOD has one banking office, offering an automated teller machine (ATM), a proprietary ATM, a mini-bank facility, and a drive-up facility. Both the mini-bank and the drive-up facilities provide extended banking hours. As of March 31, 2009, the bank's total assets are \$153 million, net loans are \$97 million, and total deposits are \$140 million.

The bank offers a full range of deposit services and loan products, with an emphasis on commercial loans, residential real estate loans, and consumer loans. As reflected in the following table, combined consumer and commercial loans (including commercial real estate) comprise 79% of the loan portfolio.

Loan Portfolio by Category		
Loan Category	\$ (000)	% of Total Loans
Commercial Real Estate Loans	30,639	30.76
Residential Real Estate Loans	25,346	25.44
Consumer Loans	22,878	22.97
Commercial Loans	15,861	15.92
Construction Loans	5,691	5.71
Total Loans	99,600	100.00

BOD was rated “Satisfactory” in its previous Community Reinvestment Act public evaluation dated February 5, 2004. The bank has no financial or legal obstacles that affect its ability to meet community credit needs.

The bank participates in developmental projects with the Desoto Chamber of Commerce, Desoto Economic Development Corporation, Desoto ISD, and the Duncanville Community and Economic Development Corporations. Current projects include the Best Southwest Quarterly Luncheons, Desoto Chamber of Commerce Monthly Luncheons, Annual Gala, Roast & Toast, and Desoto ISD Education Foundation Golf Tournament.

DESCRIPTION OF ASSESSMENT AREA

The bank defines its assessment area as 36 census tracts in portions of both Dallas and Ellis counties. The assessment area is within the Dallas, Texas Metropolitan Statistical Area (MSA #1920) and includes the cities of Desoto, Glenn Heights, Red Oak, Ovilla, Cedar Hill, Midlothian, Waxahachie, and portions of Duncanville, Lancaster, and a small portion of southern Dallas. The assessment area complies with legal requirements and does not arbitrarily exclude low- and moderate-income areas.

We contacted one member of the local community representing the Desoto Chamber of Commerce. The contact identified small business and residential home financing as primary credit needs of the community. The contact also stated that local financial institutions are meeting those credit needs.

Derived from 2000 U.S. Census Bureau and Housing and Urban Development Agency (HUD) data, the following table reflects assessment area demographics.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	50,413
Number of Households	63,205
Geographies	
Number of Census Tracts	36
% Low-Income Census Tracts	3%
% Moderate-Income Census Tracts	17%
% Middle-Income Census Tracts	47%
% Upper-Income Census Tracts	33%
Median Family Income (MFI)	
2000 MFI for AA	\$61,068
2006 HUD-Adjusted MFI	\$66,700
2008 HUD-Adjusted MFI	\$63,200
Economic Indicators	
Unemployment Rate	2.25%
2008 Median Housing Value	\$93,124
% of Households Below Poverty Level	5.97%

The bank has strong competition in the assessment area. There are many regional banks, thrifts, credit unions, and other non-financial institutions that have multi-office locations in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

BOD meets the standards for satisfactory performance. Refer to the following conclusions for loan-to-deposit ratio, lending in the assessment area, lending to borrowers of different incomes and to businesses of different sizes, and geographic distribution of loans. Small business, consumer, and residential real estate lending were identified as primary loan products.

Loan-to-Deposit Ratio

Per the FDIC Summary of Deposit report as of June 30, 2008, there are 10 financial institutions in the city of Desoto. BOD has the largest market share of these deposits at 26%. Other institutions include branches of larger community banks, regional, and national banks.

BOD’s loan-to-deposit ratio is reasonable and commensurate with its size, available resources, lending activities, as well as the demographics of the assessment area. The quarterly average loan-to-deposit ratio is 69% since the last examination. The other banks listed below are within BOD’s Ellis county assessment area.

Average Loan-to-Deposit Ratios		
Institution	Assets (as of 03/31/2009)	Average LTD Ratio
Bank of Desoto	152,679	69.10
Ennis State Bank	105,632	78.91
Vintage Bank	142,315	86.55

Lending in Assessment Area

BOD meets the standards for satisfactory performance for lending within its assessment area. For the consumer and business loans, we conducted sampling activities for loans originated from 2006 to 2009. For residential loans, we tested and relied on HMDA (Home Mortgage Disclosure Act) data reported for the same time-period.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$ (000)	%	\$ (000)	%	
Consumer	17	85	3	15	20	488	87	74	13	562
Commercial RE	18	90	2	10	20	6,475	92	553	8	7,028
*Residential Real Estate	46	37	79	63	125	5,529	31	12,377	69	17,906
Totals	81	49	84	51	165	12,492	49	13,004	51	25,496

The table above reflects the combined results of the bank’s performance of consumer, commercial, and residential real estate lending in the bank’s assessment area.

As detailed above, 49% of the number and 49% of dollar amount of loans are within the bank’s assessment area. Although BOD’s lending of consumer and commercial loans within the assessment area substantially exceeds the majority, the number and dollar amount of loans made in the assessment area for residential real estate are notably lower. This is mitigated by the numerous loans in the residential real estate loan sample that were extended to borrowers in adjacent census tracts. Bank management has decided that inclusion of those tracts would cause the bank’s assessment area to be unreasonably large. There is also strong competition with branches of large banks moving into the community and increased consumer use of loan brokers and mortgage companies.

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

BOD meets the standards for satisfactory performance when lending to borrowers of different incomes. The sample showed a significant number and dollar amount of loans originated to low- and moderate-income borrowers for consumer loans.

The following table illustrates the bank’s consumer lending to borrowers of different income levels:

Distribution by Income of Consumer Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	14	18	21	27	33	36	32	18

The following table illustrates the bank’s residential lending to borrowers of different income levels:

Distribution by Income of Residential Real Estate Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential Real Estate	15	11	18	17	24	22	42	51

Although the penetration of residential loans to low- and moderate-income borrowers in the assessment area is slightly below demographics, it is considered reasonable due to strong competition from branches of large national banks, loan brokers, and mortgage companies. Also, BOD does not offer FHA or VA loans.

BOD originated a majority of loans by number and dollar volume to small businesses. The following chart illustrates the numbers and percentages revealed by the sample:

Distribution of Loans to Businesses based upon Income Levels				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	73	3	24	100%
% of Bank Loans in AA by #	80	20	0	100%
% of Bank Loans in AA by \$	55	45	0	100%

The sample reflected 80% of the number originated to small businesses. The sample also reflected 55% of the total loan amounts were made to businesses with annual revenues of less than \$1 million.

Geographic Distribution of Loans

The geographic distribution of loans is excellent. Within the bank’s assessment area, there is one low-income census tract and six moderate-income census tracts.

Geographic Distribution of Consumer Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
% of Total	16	0	16	23	21	41	46	36

Of consumer loans originated within the assessment area, 23% of the number of loans were extended to borrowers located in moderate-income designated areas. Although BOD has no penetration in the low-income census tract, the bank has attempted to service this area. This census tract is located in the city of Dallas and is geographically small in size and population, with approximately 4,000 residents. There is also strong competition among all the major regional and national banks in the area.

Geographic Distribution of Residential Real Estate Purchase Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
% of Total	0	0	10	29	50	42	40	29

BOD has excellent performance in lending to geographies of moderate-income levels in its assessment area for residential real estate loans. Of residential real estate loans originated within the assessment area, 29% of the number of loans were extended to borrowers located in moderate-income designated areas, which is significantly above demographics.

Geographic Distribution of Commercial Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
% of Total	1	0	16	44	45	36	38	20

BOD has excellent performance in lending to geographies of moderate-income levels in its assessment area for commercial loans. Of commercial loans originated within the assessment areas, 44% of the number of loans were extended to borrowers located in moderate-income designated areas.

Responses to Complaints

A consumer complaint was filed in June of 2009 in response to denial of a loan. Management contacted the consumer and explained the bank’s lending policies and requirements. The customer did not want to negotiate terms of the loan even after management explained the minimum requirements on an auto loan. Due to the consumer’s request not being granted, a complaint was filed. After reviewing the complaint response, we found that management responded appropriately and there was no evidence of discriminatory lending practices during this CRA evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.