



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

February 05, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Bank of Desoto National Association
Charter Number 20415**

**2011 N. Hampton Road
Desoto, Texas 75115**

**Comptroller of the Currency
ADC-Dallas South
500 North Akard Street, Suite 1600
Dallas, TX 75201**

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.

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 the Bank of DeSoto, N.A., DeSoto, Texas as prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of February 5, 2004. 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**.

Bank of DeSoto, N.A. has a satisfactory record of meeting the community credit needs. This rating is based upon the following:

- The average loan to deposit ratio of 65% meets the standards for satisfactory performance;
- The majority of loan originations are within the bank's assessment area;
- The distribution of sampled consumer loans demonstrates an adequate penetration among families defined as low- and moderate-income;
- Sampled commercial real estate loans show strong penetration to businesses with revenues of less than \$1 million; and,
- The geographic distribution of residential loans and sampled consumer loans reflects an adequate dispersion to moderate-income census tracts within the assessment area.

DESCRIPTION OF INSTITUTION

Bank of DeSoto, N.A. (BOD) is a wholly owned subsidiary of D Bancorp, Inc., a single 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, 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 December 31, 2003, the bank's total assets are \$116 million, gross loans are \$74 million, and total deposits are \$105 million.

The bank offers a full range of deposit services and loan products, with an emphasis on

commercial loans and consumer loans. As reflected in Table I, combined consumer and commercial loans (including commercial real estate) comprise 79% of the loan portfolio.

Table I

Loan Categories	\$ (000s)	%
Commercial Real Estate Loans	24,096	33%
Commercial Loans	12,836	17%
Residential Real Estate Loans	15,771	21%
Agriculture Loans	0	0%
Consumer Loans	21,645	29%
Total	\$74,348	100%

Loan and deposit products offered are commensurate with the bank’s size and resources. There is strong competition from other community banks, regional banks, thrifts, credit unions, and other non-financial institutions that have multi-office locations in the area. Neither the bank’s financial condition nor any legal, regulatory, or economic environment hinder its ability to meet the credit needs of the community.

The bank participates in developmental projects with the DeSoto Economic Development Corporation and the Duncanville Community and Economic Development Corporations. Current projects involve funding office and retail space designed for small business operators. Small business lending comprises a significant portion of the bank’s lending activities and is identified as a major credit need in the community. Officers and employees are highly involved in various community and civic activities throughout the bank’s trade area.

DESCRIPTION OF THE ASSESSMENT AREA

The Bank of DeSoto, N.A. defines its assessment area as 43 census tracts comprising 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 covers both portions of both Dallas and Ellis counties. The assessment area complies with the legal requirements and does not arbitrarily exclude low- and moderate-income areas. The assessment area is situated within the Dallas, Texas Metropolitan Statistical Area (MSA) 1920.

Derived from 2000 U.S. Census Bureau and Housing and Urban Development Agency (HUD) data, Tables II and III reflect assessment area demographics.

Table II

Income Designation by Census Tract		
Tract Income Designation	Count	%
Low	1	2%
Moderate	8	19%
Middle	21	49%
Upper	13	30%
N/A	0	0%
Total	43	100%

Table III

Demographic and Economic Characteristics of Assessment Area	
<i>Population</i>	
Number of Families	60,285
Number of Households	76,119
<i>Geographies</i>	
Number of Census Tracts	43
# Low-Income Census Tracts	1
# Moderate-Income Census Tracts	8
# Middle-Income Census Tracts	21
# Upper-Income Census Tracts	13
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$55,854
2003 HUD-Adjusted MFI	\$65,000
<i>Economic Indicators</i>	
Unemployment Rate	2%
2000 Median Housing Value	\$92,595
% of Households Below Poverty Level	6%

The city of DeSoto and the surrounding communities within the assessment area are considered bedroom communities, with some light manufacturing. Area economic conditions are considered good, and unemployment is at relatively low levels. The major employment sectors within the assessment area are retail trade and service industries. The largest employers within the assessment area are the various local independent school districts. In February of 2004, DeSoto citizens approved a school bond initiative for capital improvements, including upgrading classroom equipment and computers. During the evaluation, we conducted an interview with a community contact. The contact identified the funding of small business development and improving access to public transportation as needs for DeSoto. Access to public transportation would heighten the ability for DeSoto to support ongoing retail and service sector growth by attracting minimum wage employees. Of all the cities within the bank's assessment area, the city of Cedar Hill is the leader for growth in the retail and residential sectors within the last 24 months.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

BOD's loan to deposit ratio is reasonable and commensurate with its size, competition, available resources, lending activities, as well as the demographics of the assessment area. The loan to deposit ratio average is 65% for the last eight quarters. The lending levels compare favorably with other competing financial institutions. As of December 31, 2003, the bank's loan to deposit ratio is 70%.

Lending in Assessment Area

A majority of the bank's lending activity is within its assessment area. For the consumer and business loans, we conducted sampling activities for loans originated in 2002 and 2003. For residential loans, we tested and relied on HMDA (Home Mortgage Disclosure Act) data reported for the same time period. As illustrated in Table IV, 66% of the number and 65% of the dollar volume of consumer and business loan originations are extended within the assessment area. For residential loan originations, 54% of the number and 43% of the dollar volume are within the assessment area. A significant volume of the residential loan originated during this period are for the purpose of investment rental properties and vacation homes. Although many of the borrowers primary residence is within the assessment area, these properties are generally located outside of the boundary.

Table IV

Consumer and Business Loan Originations						
Loan Type	Total Loan Originations		Within the Assessment Area			
	#	\$(000s)	#	%	\$(000s)	%
Consumer	72	1,392	43	60%	867	64%
Business	46	7,146	35	76%	4,647	65%
Grand Total	118	8,538	78	66%	5,514	65%

Table V

Volume of Residential Loans Originations						
Product	Total Originations		Within the Assessment Area			
	#	\$(000s)	#	%	\$(000s)	%
Home Purchase	59	4,749	26	44%	1,887	40%
Refinance	21	2,266	13	62%	975	43%
Home Improvement	9	421	5	56%	199	47%
Multifamily	1	143	1	100%	143	100%
Total 2002	90	7,579	45	50%	3,204	42%
Home Purchase	19	1,804	13	68%	1,050	58%
Refinance	5	1,020	3	60%	180	18%
Home Improvement	5	243	4	80%	215	88%
Multifamily	1	360	0	0%	0	0%
Total 2003	30	3,427	20	67%	1,445	42%
Grand Total	120	11,006	65	54%	4,694	43%

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

BOD has a good record of lending to borrowers of different incomes and to business of different sizes. As illustrated in Table VI, 46% of the number of residential and sampled consumer loans were extended to low- and moderate-income borrowers. The income level categories are defined based on the HUD 2003 adjusted median family income of \$65,000 for the Dallas, Texas MSA.

As depicted in Table VII, of the business loans sampled within the assessment area, 66% of the number and 85% of the dollar volume were extended to small business borrowers. Small businesses are defined as those with gross annual revenues of one million dollars or less.

Table VI

Lending to Borrowers by Income Level								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Income Level by Family	2%		13%		46%		39%	
Loan Type	#	%	#	%	#	%	#	%
Residential*	10	16%	10	16%	21	33%	22	35%
Consumer	18	42%	10	23%	10	23%	5	12%
Grand Total	28	27%	20	19%	31	29%	27	25%

*Based on 2002 and 2003 HMDA data.

Table VII

Lending to Businesses of Different Sizes								
Revenue Ranges	<\$100M		\$100-\$500M		\$500M-\$1MM		>\$1MM	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Loans to Businesses	5	224	15	3,269	3	481	12	675

Geographic Distribution of Loans

The geographic distribution of loans is reasonable. Within the bank’s assessment area, there is one low-income census tract and eight moderate-income census tracts. For loans originated within the assessment area, 40% of the number and 35% of the dollars were extended to borrowers located in moderate-income designated areas.

Table VIII

Geographic Distribution of Loans by Census Tract								
Assessment Area Data	# Low-Income		# Mod-Income		# Middle-Income		# Upper-Income	
Census Tract Designation	1	2%	8	19%	21	49%	13	30%
Loan Type	#	%	#	%	#	%	#	%
*Residential	0	0%	8	12%	25	39%	32	49%
Consumer	0	0%	8	19%	12	28%	23	53%
Business	0	0%	13	37%	8	23%	14	40%
Grand Total	0	0%	29	20%	45	32%	69	48%

*Based on HMDA reported loan data distributed across 35 census tracts within the assessment area (AA). The AA was expanded during the exam to 43 census tracts based the bank’s geographic lending distribution. The expansion of the AA is reflected in the consumer and business geographic loan distribution.

Responses to Complaints

No complaints were received since the prior examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.