



SMALL BANK

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

PUBLIC DISCLOSURE

August 23, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**United Community Bank, National Association
Charter Number 23545**

**2100 F.M. 407
Highland Village, TX 75077**

**Comptroller of the Currency
Dallas North Field Office
17300 Dallas Parkway, Suite 2020
Dallas, TX 75248**

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.

The United Community Bank, Highland Village (UCB) lending performance is satisfactory given the size, financial condition, and known credit needs of its assessment area. The primary factors supporting the bank's overall rating include:

- A reasonable average net loan-to-deposit ratio of 76%.
- A majority of loans sampled, representing 67% of the number and 57% of the dollar volume, originated within the bank's assessment area.
- The distribution of sampled loans to borrowers reflects satisfactory penetration among individuals of different income levels and businesses of different sizes; and
- The geographic distribution of sampled loans reflects reasonable dispersion throughout the assessment area.

DESCRIPTION OF INSTITUTION

UCB is a wholly owned subsidiary of The Delaware Community Group, Inc., which is wholly owned by The Community Group Inc., a Texas one-bank holding company. UCB began operations in May 1998. UCB is a full-service institution. Its primary source of revenue is providing loans and banking services to consumers and commercial businesses. UCB banking offices are located in Highland Village, Colleyville, and Coppell. They include drive-thru facilities and provide extended weekday and Saturday hours. In addition, lobby hours are extended on Thursdays. Also, customers are provided convenient 24-hour account access through Internet banking, Direct Access telephone banking, and proprietary automatic teller machines (ATMs) located at each banking office.

The bank's primary lending focus is commercial lending to small businesses. UCB offers Small Business Administration (SBA) loans, working capital, equipment, and commercial real estate loans as well as a commercial credit card program. Personal lending and credit services include letters of credits, overdraft protection, credit cards, auto, boat, recreational vehicle, college tuition, and home improvement loans.

UCB's main competition consists of branches of large multi-national banks, state banks, and credit unions. According to the June 30, 2003 FDIC's Market Share Report, there are approximately forty-one FDIC insured institutions with 157 banking offices located within the bank's assessment area. UCB holds 1.5% of market share of this group. The top five institutions account for approximately 60% of the market share. These institutions are Wells Fargo, Bank of America, Bank One, Washington Mutual, and JP Morgan Chase.

As of June 30, 2004, the bank's total assets were \$92 million; gross loans totaled \$70 million and deposits totaled \$84 million. A summary of the loan portfolio mix is as follows:

Loan Category	\$ (000)	% Of \$	# Of Loans	% Of #
Commercial & Industrial Loans	31,919	46	306	47
Commercial Real Estate Loans	31,812	45	142	22
Residential Real Estate Loans	4,114	6	49	8
Consumer Loans	2,175	3	150	49
Other Loans	9	<1	1	<1
Total	70,029	100	648	100

The bank has no legal, financial, or other factors impeding its ability to meet the credit needs of its assessment area. The bank was rated "Satisfactory" in its previous CRA public evaluation dated January 31, 2000.

DESCRIPTION OF DENTON AND TARRANT COUNTY

This evaluation of UCB's CRA performance covers the period from February 1, 2000 (last CRA evaluation) through December 31, 2002. Information collected was compared to the 1990 Census data. We did not select loans that originated from January 1, 2003 to date because an analysis of data in comparison to the 2000 census would not be meaningful. Our evaluation also

focused on the bank's assessment area as of December 31, 2002, prior to the opening of the Coppell banking office in August 2003.

The bank's offices define the assessment area that UCB serves. The assessment areas consist of twenty census tracts in Denton County and forty-one census tracts in Tarrant County. This assessment area meets the requirements of the regulatory guidelines and does not arbitrarily exclude any low- or moderate-income areas.

The demographics for the assessment area (AA) include: total occupied housing units at 92% with owner-occupied housing at 59%, rental occupied housing at 33%, and vacant housing units at 8%. Other pertinent demographic information is reflected in the table below:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	100,641
Number of Households	133,835
<i>Geographies</i>	
Number of Census Tracts/BNA	61
# - % Low-Income Census Tracts/BNA	0 - 0%
# - % Moderate-Income Census Tracts/BNA	4 - 7%
# - % Middle-Income Census Tracts/BNA	26 - 43%
# - % Upper-Income Census Tracts/BNA	31 - 51%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	37,959
2000 HUD-Adjusted MFI	58,514
2001 HUD-Adjusted MFI	61,509
2002 HUD-Adjusted MFI	63,004
<i>Economic Indicators</i>	
Unemployment Rate*	6%
2001 Median Housing Value	92,265
% of Households Below Poverty Level	4%

*Based on June 2004 Texas Workforce Commission Local Area Unemployment Statistics (LAUS) for Dallas and Fort Worth MSAs.

The economy of Denton and Tarrant counties is in a growth mode. The greatest concentration of employers in the area is in Dallas and Fort Worth. Therefore, many people within the assessment area commute to their work location. Based on the North Central Texas Council of Governments (NCTCOG) 2004 Major Employers Inventory, the top five major employers of the area are Lockheed Martin Corporation, American Airlines, Texas Instruments, University of North Texas, and Parkland Memorial Hospital. Also, the labor market performance in the late 1990's was the strongest in a decade both nationally and locally. From 1990 to 2000, Flower Mound and Frisco experienced the fastest job growth in the region, with each city growing by 230%. Populations increased in Coppell 190%, Keller 171%, Colleyville 150%, and Allen 150%.

We determined the credit needs of the community through discussion with management and a community contact. Management stated that the community credit needs are small business loans and personal banking services. The community representative stated that local financial institutions are meeting the community's credit needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our conclusions in this section are based on the bank's lending activity from the last CRA examination dated January 31, 2000. We used loan, borrower income, and assessment area data provided by the bank and tested it for accuracy. The June 30, 2004 Call Report indicates that the majority of UCB's loan portfolio is in commercial loans and commercial real estate loans. However, when you review the number of loans originated, the two primary product types are commercial and consumer loans. Therefore, our review focused on these product types. For each of the product lines we sampled, twenty loans originated from February 1, 2000 through December 31, 2002. For the income and geographic distribution analysis, we replaced loans originated outside the assessment area with loans originated within the assessment area.

Overall, UCB is meeting the standards of satisfactory performance. The bank continues to make small business and consumer loans throughout the assessment area. Geographic distribution and lending to individuals of different incomes and to business of different sizes is reasonable.

Loan-to-Deposit Ratio

Institution	Average Assets (as of 06/30/04)	Average LTD Ratio
Fort Worth National Bank - TX	85,262	92%
Justin State Bank - Justin, TX	55,075	81%
Farmer's & Merchant State Bank of Krum – TX	129,796	80%
First Security Bank – Flower Mound, TX	87,406	77%
<i>UCB Highland Village</i>	86,318	76%
National Peer Banks (201 banks)	\$50MM- \$100MM	74%
Northwest Bank – Roanoke, TX	105,681	72%
American Bank NA – Keller, TX	41,124	70%
Liberty Bank – North Richland Hills, TX	81,559	65%

UCB's loan-to-deposit (LTD) ratio is reasonable and commensurate with its size, lending opportunities, and in relation to other similarly situated financial institutions. The bank's LTD ratio averaged 76% over the last eighteen quarters from March 31, 2000 through June 30, 2004. The average ratio for the other seven banks located within the assessment area and of similar size is 77% and range from a high of 92% to a low of 65%.

Lending in Assessment Area

Based on our review of UCB's lending performance context and lending patterns, the bank meets the standards for satisfactory performance. A majority of the loans sampled were extended to individuals and businesses located within the bank's assessment area.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial Loans	12	60	1542	49	8	40	1612	51
Consumer Loans	14	70	285	80	6	30	70	20
Total	26	65	1,827	52	14	35	1,682	48

Source: Sample of Commercial and Consumer loans

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

In comparison to the performance context, the bank meets the standard for satisfactory performance in lending to borrowers of different incomes and to businesses of different sizes. We reviewed a sample of twenty commercial and twenty consumer loans originated within the bank’s assessment area. UCB’s consumer loan penetration to low-and moderate-income borrowers is excellent in comparison to the demographics as seen in the following table:

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	12.7		14.0		19.8		53.5	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	40	32	20	11	10	4	30	53

Sample: 20 Consumer loans totaling \$356,410

Furthermore, the bank adequately lends to businesses of different sizes, particularly small businesses. Loans to small businesses consist of loans with original amounts and/or revenues of \$1 million or less. UCB made seventeen of the twenty business loans that were sampled (totaling \$2.784 million) to businesses with less than \$1 million in gross revenue. However, revenue information was not readily available for two of the business loans; therefore, the loan size was used as a proxy. These two loans totaled \$460 thousand or 17% of the total dollar amount sampled. The table below illustrates the lending distribution in the assessment area.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	94	6
% of Bank Loans in AA #	85	15
% of Bank Loans in AA \$	80	20

Sample: 20 Commercial loans totaling \$2,783,563

Geographic Distribution of Loans

Based on competitive factors and the size and location of the bank, UCB has a reasonable geographic distribution of loans in its assessment area. However, additional effort is needed to improve the penetration of small business loans in moderate census tracts. The following tables illustrate the geographic distribution of the bank’s lending activity within its assessment area.

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0		5.1		46.9		48.0	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	0	0	5	3	15	11	80	86

Sample: 20 Consumer loans totaling \$356,410

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0		6		33		61	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	0	0	0	0	30	33	70	67

Sample: 20 Commercial loans totaling \$2,783,563

Responses to Complaints

UCB has not received any CRA related complaints during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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