



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

May 18, 2009

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Preston National Bank  
Charter Number 20239

5644 LBJ Freeway  
Dallas, Texas 75240

Office of the Comptroller of the Currency  
Dallas Field Office  
17300 Dallas Parkway Suite 2020  
Dallas, TX 75248-1145

**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 major factors supporting this rating are as follows:

- Preston National Bank's average loan-to-deposit ratio of 105.04% exceeds the standards for satisfactory performance given its size, financial condition, and assessment area credit needs.
- Lending to borrowers of different incomes and to businesses of different sizes meets the standards for satisfactory performance.
- The geographical distribution of loans is reasonable and meets the standards for satisfactory performance.
- There have been no CRA related complaints during the evaluation period.

**SCOPE OF EXAMINATION**

A small bank CRA examination was conducted for Preston National Bank (PNB) as of May 2009. Our evaluation period is June 30, 2004 through December 31, 2008. For this examination, a sample of twenty 1-4 Family real estate and twenty commercial real estate loans were reviewed. PNB is located within the Dallas-Plano-Irving MSA, therefore PNB is required to report real estate loans as required by the Home Mortgage Disclosure Act (HMDA). During this review, we sampled ten HMDA loans for data integrity purposes and determined there were no reporting errors. PNB's internal controls and practices provide for accurate annual reporting. Our analysis of HMDA data in this evaluation will be for 2007 and 2008.

## DESCRIPTION OF INSTITUTION

PNB is a full service community bank located at 5644 LBJ Freeway in Dallas, Texas. It is 99% owned by one individual. PNB has no affiliates, operating subsidiaries or branch locations. PNB offers extended lobby hours on Fridays, including a drive-up facility with extended weekday and Saturday hours. As of December 31, 2008, PNB reported total assets of \$64 million, gross loans of \$58 million, and total deposits of \$53 million. PNB offers a wide range of credit products including commercial, commercial real estate, mortgage, construction loans and consumer loans. In addition, PNB offers a real estate rehab program which enables customers to purchase and repair housing for resale, and includes areas with low to moderate income. PNB's overall lending focus is oriented to commercial, commercial real estate, and residential real estate lending. The following table reflects PNB's loan portfolio mix as of December 31, 2008:

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Residential Real Estate Loans	\$23,654	40%
Commercial Real Estate Loans	\$21,843	37%
Commercial and Industrial Loans	\$9,928	17%
Consumer Loans	\$1,909	3%
Agricultural/Farmland	\$1,521	3%
<b>Total</b>	<b>\$58,855</b>	<b>100%</b>

PNB received a "Satisfactory" rating in its previous CRA Public Evaluation dated April 20, 2004. The bank has no financial, legal, or other obstacles that impedes its ability to meet the credit needs of its designated assessment area.

## DESCRIPTION OF PNB's ASSESSMENT AREA(S)

PNB's assessment area (AA) is defined as the boundaries of highway 78, 75, and I-635 as the eastern boundary, I-35E as the western boundary, highway 121 as the northern boundary, and 175 as the southern boundary. The AA consists of whole census tracts located in the Dallas-Plano-Irving metropolitan statistical area (MSA), and includes portions of the cities of Addison, Carrollton, Farmers Branch, Plano, Richardson, Mesquite, and Garland. There are a total of 317 census tracts within the AA including 33 low-income tracts, 70 moderate-income tracts, 89 middle-income tracts, and 122 upper-income tracts. There is no income designation available on the 3 remaining census tracts.

The following table reflects the demographics for the assessment area:

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
Population	
Number of Families	359,996
Number of Households	577,074
Geographies	
Number of Census Tracts	317
% Low-Income Census Tracts	10%
% Moderate-Income Census Tracts	22%
% Middle-Income Census Tracts	28%
% Upper-Income Census Tracts	39%
% Not Available	1%
Median Family Income (MFI)	
2000 MFI for AA	\$56,313
2005 MFI HUD-Adjusted MFI	\$65,000
2006 MFI HUD-Adjusted MFI	\$66,700
2007 MFI HUD-Adjusted MFI	\$63,200
2008 MFI HUD-Adjusted MFI	\$63,200
2009 MFI HUD Updated MFI	\$68,700
Economic Indicators	
Unemployment Rate	6.7%
2000 Median Housing Value	\$143,945
% of Households Below Poverty Level	9.30%
% of Households on Social Security	14.77%

Source: 2000 U.S. Census data and Texas Workforce Commission website

\*The unemployment rate for the Dallas-Plano-Irving MSA is as of April 2009 – Not seasonably adjusted

Based on 2000 U. S. Census data, the total population of the AA is 1.4 million, consisting of 360 thousand families and 577 thousand households. The AA contained 612,508 housing units with 289,154 or 47.21% owner occupied. Households below the poverty level and households that receive public assistance are relatively low at 9.3% and 1.74%.

Based upon information documented by Metrostudy.com, the national economy took a turn for the worse during the fourth quarter of 2007, while the Dallas/Fort Worth metroplex began to feel the effect of the slowdown more dramatically. Annual job growth in the Dallas/Fort Worth metroplex slowed to 46,900 jobs by the end of November 2008. However, Metrostudy believes that these estimates will be revised downward in early 2009 based on announced layoffs in the market and anecdotal comments provided in the Federal Reserve's Beige Book. Metrostudy expects the job growth to continue to slow during the first half of 2009. Nonetheless, the Dallas/Fort

Worth metroplex continues to exhibit one of the healthiest economies in the nation. The Dallas/Fort Worth metroplex trails only Houston, Texas in job growth. The Dallas/Fort Worth economy created more jobs than any other state. Additionally, six of the top ten job growth metro areas are located in Texas.

As of April 2009, unemployment for the Dallas-Plano-Irving MSA is 6.7% and is the same for the State of Texas average. The largest employers in the north Dallas area are Texas Instruments, Frito-Lay, J. C. Penney, American Airlines, Southwest Airlines, Raytheon Company and Lockheed Martin.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

PNB's overall CRA performance meets the standards for satisfactory performance. The average loan-to-deposit ratio exceeds that of competing banks. Lending within the assessment area (AA) is considered satisfactory, as 73% of the number of loans reviewed originated within PNB's AA. The geographical distribution of loans also meets the standards for satisfactory performance and PNB has received no CRA related complaints. The bank's lending to borrowers of different incomes and to businesses of different sizes is satisfactory. Based on community contacts performed for Dallas area banks since the prior review, it was determined that the general consensus is that the performance of local financial institutions is good, although it was noted that there is a shortage of affordable housing.

### Loan-to-Deposit Ratio

PNB's loan-to-deposit (LTD) ratio exceeds that of similarly situated financial institutions. These banks are similar in asset size and are within the bank's assessment area. We compared PNB's quarterly LTD ratio with these banks and determined that PNB's average LTD ratio averaged 105% over nineteen quarters from June 30, 2004 through December 31, 2008. Given the bank's size, financial condition, assessment area credit needs, and area competition, PNB's average LTD ratio exceeds the standard for satisfactory performance. The chart below illustrates PNB's LTD performance:

<b>Institution</b>	<b>Assets as of 12/31/08</b>	<b>Average LTD Ratio</b>
TBank, NA.	\$140,084	90.14%
Professional Bank, NA	\$115,739	91.35%
American Bank, NA	\$24,297	51.53%
Signature Bank	\$91,289	74.03%
<b><i>Preston National Bank</i></b>	<b><i>\$64,174</i></b>	<b><i>105.04%</i></b>

### Lending in Assessment Area

Based on our review of PNB’s lending performance and lending patterns, PNB meets the standards for satisfactory performance. A majority of sampled loans were extended to borrowers located within the designated AA. Based on a total of 40 loans, 73% of the number of loans were originated in the bank’s AA. See chart below:

<b>Table 1 – Lending in Preston NB AA</b>										
Loan Type	Number of Loans					Dollars of Loans (\$000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Real Estate	11	55.00	9	45.00	20	1,368	69.13	611	30.87	1,979
Commercial Real Estate	18	90.00	2	10.00	20	7,970	86.33	1,262	13.67	9,232
Totals	29	73.00	11	27.00	40	\$11,158	86.63	\$1,873	14.37	\$13,031

Source: Based on sample of 20 Residential R/E & 20 Commercial Real Estate loans.

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

The chart below is based on 2007 and 2008 HMDA data and the sample of 20 Real Estate loans. There is a reasonable penetration of loans to each income group in comparison to the demographic data, however, PNB made more loans to upper income borrowers when compared to the demographic data. This is particularly true for the real estate sample since these loans reflect loans to real estate investors to purchase and re-hab 1-4 family homes. These borrowers are typically higher income.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Preston NB AA</b>								
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
Home Purchase	21.47	6.60	16.84	12.26	18.15	17.92	43.53	24.53
Home Improvement	21.47	50.00	16.84	50.00	18.15	0	43.53	0
Refinance	21.47	0	16.84	0	18.15	0	43.53	100.00
RE Sample	21.47	10.00	16.84	15.00	18.15	10.00	43.53	65.00

Source: Sample of Real Estate loans and data reported under HMDA for 2007 & 2008; U.S. Census data.

The table below reflects that PNB does a good job of lending to borrowers of different sizes, particularly small businesses, which are defined as having annual revenues less than \$1 million. Based on our sample of 20 commercial real estate loans, 85% of loans were made to businesses with annual revenues less than \$1 million, while 86% of loans by dollar volume were made to business with annual revenues less than \$1 million.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Preston NB AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	66.64	6.09	27.27	100%
% of Bank Loans in AA by #	85.00	15.00	0	100%
% of Bank Loans in AA by \$	86.33	13.67	0	100%

Source: Loan sample; U.S. Census data

### Geographic Distribution of Loans

PNB’s overall geographical distribution of loans is reasonable and meets the standards for satisfactory performance. The distribution of loans to borrowers in low-income census tracts is low for both real estate and business loans, however, penetration of loans to borrowers in moderate-income census tracts is very good. Based on HMDA data and the sample of loans, the geographical distribution of loans is satisfactory in comparison to the number of upper-income census tracts within the AA. Thirty-eight percent of the census tracts within the AA are designated as upper-income census tracts. Low-income census tracts are only 10% of the bank’s designated AA. Management stated that lending to applicants residing in low- to moderate-income areas is exceptionally difficult due to the significant number of independent banks and branches of large banks within the AA that offer low rate financing programs.

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans in Preston NB AA</b>								
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
Home Purchase	2.62	0.94	17.20	27.36	28.29	38.68	51.89	33.02
Home Improvement	2.62	0	17.20	50.00	28.29	50.00	51.89	0
Refinance	2.62	0	17.20	66.67	28.29	0	51.89	33.33

Source: Data reported under HMDA for 2007-2008; U.S. Census data.

<b>Table 3A - Geographic Distribution of Loans to Businesses in Preston NB AA</b>								
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
Business	4.67	0.00	24.05	20.00	30.20	20.00	39.05	45.00

*Source: Commercial Real Estate loan sample & U. S. Census data. 15% of commercial real estate is out of the AA or income level of CT is unknown.*

<b>Table 3B - Geographic Distribution of Real Estate Loans in AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
Real Estate Loans	8.85	10.00	22.78	15.00	31.32	10.00	37.04	65.00

*Source: Sample of twenty consumer loans and U.S. Census data.*

### **Responses to Complaints**

PNB received no CRA related consumer complaints during the evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

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