



## **PUBLIC DISCLOSURE**

February 03, 2014

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Town North Bank, National Association  
Charter Number 15980

14185 Dallas Parkway, Suite 200, Dallas, TX 75254

Office of the Comptroller of the Currency

Dallas Field Office, 225 East John Carpenter Freeway, Suite 500, Irving, TX 75062

**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 Lending Test is rated: Satisfactory**

**The Community Development Test is rated: Satisfactory**

Major factors that support this rating include:

- The bank's loan-to-deposit ratio (LTD) is reasonable.
- A majority of loan originations and purchases are within the bank's assessment area (AA).
- The distribution of loans to businesses of different sizes exhibits a reasonable penetration.
- The bank's geographic distribution of business loans to low- and moderate-income census tracts reflects an excellent dispersion.
- The overall level and responsiveness of community development lending, investments, and services is adequate.

## **Scope of Examination**

This Performance Evaluation (PE) assesses the bank's performance under the Lending and Community Development Tests. The evaluation period ranges from November 29, 2010, the date of the prior PE, through February 3, 2014, the date of the current evaluation. However, the Lending Test concentrated on activity from January 1, 2012 to December 31, 2013. In evaluating the bank's lending performance, the bank's primary loan products include commercial and commercial real estate lending with an emphasis on small business lending. We therefore placed the most weight for rating the borrower and geographic distribution of loans on small business lending considering the bank's strategic focus is business lending. In evaluating the Community Development Test, we reviewed community development (CD) loans, investments, and services for the entire evaluation period.

In our evaluation of the distribution of loans, we utilized the demographics and geographies related to the 2010 Census as it applies to the years 2012 and 2013.

This evaluation is based on accurate data. We tested Home Mortgage Disclosure Act (HMDA) data for residential mortgages and Community Reinvestment Act (CRA) data for business loans to verify the accuracy of data used for this examination. We also verified CD loans, investments, and services submitted by management to ensure the investments and activities met the regulatory definition for community development. We excluded any items that did not meet the definition or purpose of community development.

As no affiliates exist, their activities were not considered in this evaluation.

We conducted a full-scope review of the bank's only AA.

## Description of Institution

Town North Bank, National Association (TNB or bank) was chartered in 1972. It is 100 percent owned by CU Bank Shares, Inc. whose sole subsidiary is the bank. TNB's total assets as of December 31, 2013 are \$568 million. The most recent CRA PE was November 29, 2010 at which a Satisfactory rating was assigned.

TNB's business plan has historically funded growth as necessary with a distinct reliance on wholesale sources. Consequently, a majority of the bank's liabilities are not traditional retail deposits. In recent years, the bank has experienced financial constraints that have restricted lending opportunities and capacity. Significant reductions in bank staff have further limited participation in community development activities within the assessment area.

In August 2012, TNB relocated its main office within Dallas from leased space in an office building at 4455 LBJ Freeway to a similar arrangement at 14185 Dallas Parkway. The bank had occupied several floors at the LBJ location and highway construction was not conducive to customer access. Prior to the relocation, the bank sold its credit card processing operation. At the new address, TNB has consolidated its smaller operation on the building's second floor. The retail facility is located on the ground floor and two drive-through lanes are on the north end of the attached parking garage.

As of December 31, 2013, net loans were 36 percent of TNB's total assets of \$568 million. The following table reflects TNB's loan portfolio summary.

<b>Town North Bank Loan Portfolio Summary</b>		
<b>Loan Category</b>	<b>Dollar Volume (in thousands)</b>	<b>Percentage</b>
Mortgage Warehouse Line	84,353	41%
<b>Commercial and Commercial Real Estate</b>	<b>69,071</b>	<b>33%</b>
Residential Real Estate	38,956	19%
Construction and Development	7,142	3%
Farmland	6,484	3%
Consumer and Other	449	1%
<b>Total Loans</b>	<b>206,455</b>	<b>100%</b>

*Source: December 31, 2013 Call Report*

The bank's retail lending strategy continues to be the origination of commercial and commercial real estate loans to small and midsize businesses and business owners, and the limited purchase of residential loans from other lenders. The residential loans are for home purchase, refinance and improvement and are to existing homeowners and investors. TNB's mortgage warehouse line funds single-family loan production on a national basis working with several originators. Upon origination, these loans are sold to investors.

Since the sale of its credit card processing business, TNB has been refocusing its operating strategy to more closely resemble that of a community bank that serves the banking and credit needs of its communities and AA.

## **Description of Assessment Area**

TNB has one AA consisting of northern Dallas County (338 census tracts), all of Denton County (137 census tracts) and the western half of Collin County (143 census tracts), all of which are located in the Dallas-Plano-Irving, TX Metropolitan Statistical Area (MSA #19124). There are 60 low-income geographies and 123 moderate-income geographies in the AA. The AA meets the requirements of the CRA regulation, does not arbitrarily exclude low- and moderate- income geographies, and includes only those portions of political subdivisions that TNB can reasonably be expected to serve.

According to the June 30, 2013 FDIC Deposit Market Share Report, 125 banks and thrifts operate 1,064 branches within Dallas, Denton and Collin counties. Large banks dominate the banking competition with Bank of America, N.A. and JP Morgan Chase Bank, N.A. holding 33.07 and 23.72 percent of the market share, respectively. Wells Fargo Bank, N.A., Texas Capital Bank, N.A., and Compass Bank round out the top five collectively holding 14.50 percent of the market share. Competition is high among the remaining 120 banks and thrifts. TNB is ranked 34<sup>th</sup> overall holding 0.28 percent of the total market share.

Dallas, Denton and Collin Counties are three of 254 counties in the state of Texas. All three counties are in the Dallas-Fort Worth metroplex. A well-diversified business environment supports the economy, which ranges from the airline industry, to petroleum refinement, to household and personal products, to healthcare. Several Fortune 500 companies are headquartered in the area.

The 6.3 percent unemployment rate for the AA is slightly lower than the State of Texas rate of 6.5 percent, both of which are lower than the United States (7.4 percent) as of June 30, 2013.

As noted in the demographic data table below, there are a total of 618 census tracts within the AA, 70 percent of which are middle- and upper-income geographies. Almost seven percent and 15 percent of the AA’s businesses are located in the low-income and moderate-income census tracts, respectively. Of the total number of businesses and farms in the AA, 66 percent have 1-4 employees and 68 percent earn less than \$500,000 of annual revenue.

<b>Demographic Data for the Dallas-Collin-Denton AA</b>						
	<b>Total</b>	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>	<b>N/A*</b>
Census Tracts	618	60	123	152	280	3
Businesses by Geography	396,955	<b>27,206</b>	<b>59,248</b>	93,953	215,451	1,097
Farms by Geography	6,481	324	941	1,788	3,420	8
Total Population	2,786,702	251,307	535,279	705,293	1,294,738	85
Owner Occupied Housing Units	589,395	15,056	77,928	146,404	349,989	18
Households by Income	1,000,131	205,156	156,189	171,768	467,018	
Families by Income	662,224	129,487	97,628	116,219	318,890	
Census MSA MFI	\$67,501	Median Housing Value		\$221,457		
HUD – Adjusted MFI	\$70,600	Unemployment		6.28%		
Businesses and Farms with less than five employees	<b>65.69%</b>	# of Retired Households		99,359		
Businesses and Farms with less than \$500,000 annual revenue	<b>68.08%</b>	# of SS Households		162,036		

*\*Geographies that have not been assigned an income classification.  
Source: 2010 US Census, HUD*

We determined the community credit needs in the AA by reviewing CRA Performance Evaluations of other banks operating in the same AA, discussions with management, and input from community contacts. We determined that the most pressing credit needs in the AA are small and medium-sized business loans.

## **Conclusions with Respect to Performance Tests**

### **LENDING TEST**

The bank’s performance under the Lending Test is rated “Satisfactory”.

### **Loan-to-Deposit Ratio**

TNB’s LTD ratio is reasonable given the bank's size, financial constraints, location, local competition, and the credit needs of the AA. This determination is based on the quarterly average LTD ratio from December 31, 2010 through December 31, 2013 of 65.27 percent. During this evaluation period, TNB’s LTD ratio ranged from a low of 49.26 percent to a high of 83.35 percent.

Management considers the banks shown in the following table to be similarly situated institutions. All are community banks less than \$1 billion in assets that actively offer similar loan products and have branch locations in the AA.

The quarterly average LTD ratio for each similarly situated bank is listed below. Please note that no ranking is intended or implied.

<b>Loan-to-Deposit Ratios</b>		
<b>Financial Institutions</b>	<b>Total Assets \$ (000's) (As of 12/31/2013)</b>	<b>Average Loan-to-Deposit Ratio</b>
<b>Town North Bank, National Association</b>	<b>568,135</b>	<b>65.27%</b>
Share Plus Bank	303,563	91.86%
Veritex Community Bank	665,066	80.89%
Park Cities Bank	405,971	61.13%

*Source: Institution Reports of Condition from December 31, 2010 to December 31, 2013.*

### Lending in Assessment Area

A majority of the number and dollar amount of TNB's loans were originated or purchased inside its AA. As depicted in Table 1 below (\$000s omitted), 56.45 percent of the number and 74.55 percent of the dollar amount of loans were originated or purchased inside the AA.

<b>Table 1 - Lending in Dallas-Collin-Denton AA</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business Loans	105	56.45	81	43.55	186	15,940	74.55	5,442	25.45	21,382

*Source: Data collected by bank.*

If the bank's HMDA-reported residential loans are included, the number and dollar amount of loans originated or purchased inside the AA increases to 62.21 percent and 87.55 percent, respectively. However, given that TNB's strategic focus is on business lending, our analysis will not include residential lending.

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

TNB's distribution of loans to businesses in the AA demonstrates a reasonable penetration among businesses of different sizes.

As illustrated in Table 2A, 47 percent of the bank’s loans to small businesses by number and dollar amount were within the AA. A small business is defined as a business with revenues of \$1 million or less. Although the percentages were below the demographic, we considered the penetration adequate based on performance context.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Dallas-Collin-Denton AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	70.65	3.65	25.70	100%
% of Bank Loans in AA by #	46.67	43.81	9.52	100%
% of Bank Loans in AA by \$	46.89	45.84	7.27	100%

Source: Loan data collected by bank; Dun and Bradstreet data.

As detailed in Table 2C below, 70 percent of loans to businesses originated by TNB were in amounts of \$100,000 or less. Loan size often loosely correlates to the size of the business.

<b>Table 2C - Borrower Distribution of Loans to Businesses by Loan Size in Dallas-Collin-Denton AA</b>				
Loan Size (000’s)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	73	69.52	2,689	16.87
\$100,001 - \$250,000	13	12.38	2,549	15.99
\$250,001 - \$1,000,000	19	18.10	10,702	67.14
Over \$1,000,000	0	0.00	0	0.00

Source: Data collected by bank.

### Geographic Distribution of Loans

TNB’s geographic distribution of loans to low- and moderate-income census tracts reflects excellent dispersion and demonstrates a pattern indicative of an institution seeking to service the commercial credit needs of its AA. Table 3A below illustrates the extent to which the bank’s lending in the low-income census tracts (40.95 percent of business loans) outstrips the percent of businesses located in those geographies (6.85 percent). TNB’s business loan in the moderate-income census tracts is comparable to the percent of businesses located in those geographies.

<b>Table 3A - Geographic Distribution of Loans to Businesses in Dallas-Collin-Denton AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
Businesses	6.85	40.95	14.93	11.43	23.67	11.43	54.28	36.19

Source: Loan data collected by bank; D & B data.

## **Responses to Complaints**

TNB has not received any complaints regarding its CRA performance during the evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

TNB's responsiveness to the community development needs of the AA through CD lending, investments, and services is adequate. Our conclusion is based on the bank's level of activity and performance context.

TNB demonstrates an adequate responsiveness to the CD needs of the AA through the use of CD loans, qualified investments and CD services, considering the bank's capacity and financial condition, and the need and availability of such opportunities in the AA. The evaluation period starts from the date of the last CRA evaluation period (November 29, 2010) to the date of the current CRA evaluation (February 3, 2014).

### **Number and Amount of Community Development Loans**

Considering TNB's performance context and capacity, and the needs and opportunities in the AA, the bank's performance is adequate for CD lending.

During the evaluation period, TNB originated two CD loans totaling \$340,000. The purpose of the loans was to remodel two apartment complexes located in a moderate-income census tract in Dallas. The apartments will be rented to low- and moderate-income (LMI) residents. Through its financial support, TNB is providing affordable housing.

### **Number and Amount of Qualified Investments**

Considering TNB's performance context and capacity, and the needs and opportunities in the AA, the bank's performance is excellent for qualified investments.

Although TNB did not purchase any qualified debt or equity investments during the evaluation period, it did continue its equity investment in the Lone Star New Markets Fund (LSNMF) made in the previous review period for \$8 million. The LSNMF is a Tax Credit Program that the U.S. Congress established to attract private sector capital investments into urban and rural low-income areas to help finance CD projects, stimulate economic opportunity, and create jobs in the areas that are of most need. LSNMF invests in low- and moderate-income communities within the state of Texas. The primary purpose of these investments is to stimulate economic development and help revitalize communities. As of December 31, 2013, TNB's book value in the LSNMF is \$7.5 million.

Other qualified investments during the evaluation period totaled \$85,000 that included donations and contributions to two organizations in the AA. Most notable is \$84,000

donated to the Carrollton/Farmers Branch ISD earmarked for college scholarships to 21 qualifying LMI high school students. TNB also donated \$52,000 to other organizations within the AA that did not qualify as CRA donations but contributed to the bank's AA.

In aggregate, qualified investments and the outstanding prior period LSNMF investment total \$7.6 million. This represents 12 percent of equity capital, as of December 31, 2013.

### **Extent to Which the Bank Provides Community Development Services**

TNB's CD services reflect adequate responsiveness to the needs and opportunities in the AA.

During the evaluation period, TNB closed its Preston Place mobile branch and relocated its main office within Dallas from 4455 LBJ Freeway to 14185 Dallas Parkway. No branch offices exist at present. There are two full-service ATMs, one in the ground-floor lobby of the building that houses TNB's main office and the second at the drive-through facility at the north end of the building's parking garage.

Although the main office is situated in a middle-income census tract, within a five-mile radius of the facility there are 31 low- and moderate-income census tracts located in Dallas, Collin and Denton Counties. Banking hours provide adequate accessibility to individuals and businesses within this area. The main office maintains standard banking hours Monday through Friday. The drive-through lanes are open for longer periods during the week including Saturday. TNB offers customers access to a network of nationwide ATMs without surcharge fees to its depositors.

TNB's banking programs and hours allow the bank to deliver needed banking and credit services to LMI areas and individuals in the AA with an emphasis on small businesses. Products and services offered include the following:

- Personal electronic checking account that includes free online banking, free bank-by-phone, and a free MasterCard debit card that assist in providing services to LMI individuals. This account only requires \$100 opening deposit (\$10 monthly fee if one direct deposit is not made or the daily balance falls below \$500). The account comes with free ATM access at TNB's two ATMs, as well as non-TNB ATMs nationwide. Online banking includes bill payment, online statements, ACH transactions, and transferring funds between accounts.
- Personal checking account that includes free online banking, free bank-by-phone, and a free MasterCard debit card that assist in providing services to LMI individuals. This account only requires \$100 opening deposit (\$10 monthly fee if the daily balance falls below \$500). The account comes with free ATM access at TNB's two ATMs, as well as non-TNB ATMs nationwide. Online banking includes bill payment, online statements, ACH transactions, and transferring funds between accounts.

- Checking account for small businesses with limited account activity and online banking. This account only requires \$100 to open (\$10 monthly fee if the daily balance falls below \$500). The account comes with up to three free MasterCard debit cards, free online banking, free bank-by-phone, and the first 150 credits and debits processed per monthly cycle are free. Online banking includes online statements, ACH transactions, and transferring funds between accounts.
- TNB allows small businesses to scan checks for electronic deposit from their place of business.
- Free 24-hour banking by phone and internet. All of these services are offered in English and Spanish.
- Matricula identification cards are allowed by TNB to accommodate Mexican citizens working in the U.S. and in need of a U.S. bank account. Many banks in the AA will not open accounts using this card; however, TNB has performed the due diligence review so that they may safely offer this service with low risk to the bank. Law enforcement officials in the Dallas-Fort Worth Metroplex have stated that opening accounts to the unbanked and under-banked population helps fight crime in LMI areas.
- Personal Visa and MasterCard credit cards are available through TNB.
- Business Visa credit cards are available through TNB.
- Consumer loans, loans on deposits, and residential mortgage loans.

TNB also meets the CD service needs of the AA through volunteer activities by its officers and employees. By providing services that take advantage of bank employees' financial expertise, TNB is responsive to the needs of LMI individuals and families. TNB provided 260 hours of qualified CD services during the evaluation period of November 29, 2010 through February 3, 2014. These services included serving on finance committees and as directors of organizations engaged in a variety of community services targeted to LMI individuals. Two examples follow.

- A bank officer continues to provide leadership as a member of the finance committee and the advisory committee for Our Friend's Place. This organization provides therapeutic care and housing for abused, neglected, or abandoned girls and young women, all of whom fall within LMI guidelines. The bank officer helped develop and conduct financial educational programs for LMI women who have endured poverty and abuse.

- A senior vice president served on the boards of directors for the Metrocrest Medical Foundation and Metrocrest Social Services that supports initiatives to enhance the quality of health care for residents in the AA for all income levels.

### **Responsiveness to Community Development Needs**

The volume and responsiveness of TNB to the CD needs of the AA is adequate. The Board has identified dollar and manpower resource allocations to respond to the following CD needs of the AA:

- Invest in small business funds to stimulate economic development and create jobs,
- Originate loans to investors that provide affordable housing,
- Provide banking services to LMI residents and small businesses,
- Fund college scholarships to LMI students, and
- Donate cash and service hours to specific community service organizations.

Performance context factors that limited participation in CD activities within the AA included financial constraints that restricted lending opportunities and capacity, and significant reductions in bank staff.

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

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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