



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

February 13, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Dallas Capital Bank, National Association
Charter Number 15980

14185 Dallas Parkway, Suite 200
Dallas, TX 75254

Office of the Comptroller of the Currency
225 E. John Carpenter Freeway, Suite 900
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.

The factors that support this rating include:

- The bank's loan-to-deposit (LTD) ratio is reasonable.
- A substantial majority of loan originations and purchases are inside the bank's assessment area (AA).
- The distribution of loans to businesses of different sizes exhibits a poor penetration.
- The bank's geographic distribution of business loans to low- and moderate-income (LMI) census tracts reflects a reasonable dispersion.
- No consumer complaints regarding the bank's CRA performance were received during this evaluation period.
- The overall level and responsiveness of community development (CD) 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 February 3, 2014, the date of the prior PE, through February 13, 2017, the date of the current evaluation. However, the Lending Test concentrated on activity from January 1, 2014 to December 31, 2016. We identified commercial and commercial real estate loans (business loans) as the bank's primary loan products. 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 2014, 2015 and 2016.

This evaluation is based on accurate data. To evaluate Dallas Capital Bank's (DCB) performance relative to business lending, for each of the three years we selected a random sample of 20 business loans that were originated and purchased. Based on our testing of the sampled loans, we found the aggregate data reliable to use for this evaluation. For Tables 1, 2A and 3A in this PE, we used the entire population of originated and purchased business loans. 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 sole AA.

Description of Institution

The bank was chartered in 1972 by CU Bank Shares, Inc. whose sole subsidiary was formerly Town North Bank, National Association. Ownership of the holding company was held by 38 credit unions with the bank serving as their credit card issuer. Growth was funded as necessary with a distinct reliance on wholesale sources. Consequently, a majority of the bank's liabilities were not historically traditional retail deposits.

In 2009, the bank sold the bulk of its credit card portfolio. The following year the bank sold its credit card processing business. In 2012 the bank relocated within Dallas from several floors of leased space in an office building at 4455 LBJ Freeway. The bank sold the last portion of its credit card portfolio in 2013.

Effective May 1, 2015, Park Cities Financial Group, Inc. acquired 100 percent of CU Bank Shares, Inc. The new owners changed the bank's name from Town North Bank, National Association to Dallas Capital Bank, National Association (DCB or bank) on November 15, 2015, and moved to leased space at 14185 Dallas Parkway. At its present address, DCB located the retail facility on the ground floor, and consolidated its smaller operation on the second floor with two drive-through lanes on the north end of the attached parking garage.

The most recent CRA PE, issued to Town North Bank, National Association, is dated February 3, 2014, with a "Satisfactory" rating assigned. There are no legal or financial impediments to DCB's ability to meet the credit needs of its AA. The bank offers a full-range of loan and deposit services.

As of December 31, 2016, net loans were 51 percent of DCB's total assets of \$718 million. The following table reflects DCB's loan portfolio summary.

Dallas Capital Bank Loan Portfolio Summary		
Loan Category	Dollar Volume (in thousands)	Percentage
Mortgage Warehouse Line	162,769	45%
Commercial and Commercial Real Estate	100,384	27%
Residential Real Estate	77,400	21%
Construction and Development	15,008	4%
Farmland	2,414	1%
Consumer and Other	7,186	2%
Total Loans	365,161	100%

Source: December 31, 2016 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. The bank'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.

The bank has refocused its operating strategy to closely resemble a community bank that serves the banking and credit needs of its communities and AA.

No branch offices exist at present. There are two full-service ATMs, one in the ground-floor lobby of the building that houses DCB's main office and the second at the drive-through facility.

Although the main office is situated in a middle-income census tract, within a 0.5 mile radius of the facility there are two low-income census tracts and one moderate-income tract. Banking hours provide adequate accessibility to individuals and businesses within this area. The main office maintains hours comparable to area banks. The drive-through lanes are open for longer periods during the week. The bank offers customers access to a network of nationwide ATMs without surcharge fees to its depositors.

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 and midsize businesses. Products and services offered include the following:

- Personal electronic and personal checking accounts include free online banking, mobile banking, free bank-by-phone, and a free *MasterCard* debit card that assist in providing services to LMI individuals. This account only requires \$100 minimum opening deposit without a monthly fee and no minimum balance required. The account comes with free ATM access at DCB's two ATMs, as well as non-DCB ATMs nationwide. Online banking includes bill payment, online statements, ACH transactions, and transferring funds between accounts.
- To increase accessibility to consumers, the bank invested in mobile banking technology during 2016. Mobile banking is available free of charge to all customers.
- At no additional cost, *People Pay* was implemented during the first quarter of 2016. *People Pay* allows funds to be transferred to individuals via four payment methods.
- Checking account for small businesses with limited account activity is available. It includes mobile and online banking, bill pay and free electronic statements. This account only requires \$100 to open (\$15 monthly fee if the daily balance falls below \$1,500). The account comes with up to three free *MasterCard* debit cards, free online and mobile banking, free bank-by-phone, and the first 150 credits and debits processed per monthly cycle are free. Online and mobile banking include online statements, ACH transactions, and transferring funds between accounts.

- DCB 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.
- Personal *Visa* and *MasterCard* credit cards are available through DCB.
- Business *Visa* credit cards are available through DCB.
- Consumer loans, loans on deposits, and residential mortgage loans.

Description of Assessment Area

Dallas Capital Bank has one AA consisting of Dallas County north of U.S. Interstate 30 (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 Division. There are 59 low-income geographies and 124 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 DCB can reasonably be expected to serve.

According to the June 30, 2016 FDIC Deposit Market Share Report, 121 banks and thrifts operate 1,052 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 33.21 and 22.80 percent of the market share, respectively. Texas Capital Bank, N.A., Wells Fargo Bank, N.A., and Compass Bank round out the top five collectively holding 16.52 percent of the market share. Competition is high among the remaining 116 banks and thrifts. This bank is ranked 31st overall holding 0.24 percent of the total market share.

The unemployment rates for Dallas, Collin and Denton counties as of December 31, 2016 are 3.8 percent, 3.4 percent, and 3.4 percent, respectively. All compare favorably to the unemployment rates for the state of Texas (4.6 percent) and the U.S. (4.7 percent).

Major employers include American Airlines, Lockheed Martin, Bank of America, Baylor Health Care System, AT&T, JP Morgan Chase, Texas Instruments, Target Corp., and ExxonMobil, which is headquartered in Irving, TX. The relocation of Toyota's U.S. headquarters to Plano will further boost the area economy with an estimated 4,000 net new professional, managerial, technical and administrative jobs. The construction of a \$1 billion campus is underway providing jobs for 2,000 construction workers. In recent years, State Farm built its regional headquarters in the area. Liberty Mutual is now constructing a new regional operations center that will house several thousand new employees when completed in 2017.

Demographic Data for the Dallas-Collin-Denton AA						
	Total	Low	Moderate	Middle	Upper	N/A*
Census Tracts	618	59	124	149	283	3
Businesses by Geography	298,633	19,842	44,613	67,117	166,201	860
Farms by Geography	5,206	235	750	1,373	2,843	5
Total Population	2,786,702	247,346	539,240	693,289	1,306,742	85
Owner Occupied Housing Units	589,395	14,793	78,191	143,794	352,599	18
Households by Income	1,000,131	89,236	185,914	262,126	462,837	18
Families by Income	662,224	49,574	114,413	165,812	332,416	9
Census MSA MFI	\$67,175	Median Housing Value			\$221,457	
FFIEC – Updated MFI	\$70,500	Households Below Poverty Level			10.08%	
Businesses and Farms with less than five employees	71.08%	% of Retired Households			9.93%	
Businesses and Farms with less than \$500,000 annual revenue	74.22%	% of SS Households			16.20%	

*Geographies that have not been assigned an income classification.

Source: Updated 2010 US Census, FFIEC.

We determined the credit needs in the AA by reviewing the CRA PEs of other banks operating in the AA, discussions with management, and input from community contacts. We concluded that the most pressing credit needs in the AA are loans to support small businesses as well as affordable housing for LMI individuals and families.

Conclusions with Respect to Performance Tests

LENDING TEST

The bank's performance under the Lending Test is rated "Satisfactory".

Loan-to-Deposit Ratio (LTD)

Dallas Capital Bank's LTD ratio is reasonable given the bank's size, location, local competition, and the credit needs of the AA. This determination is based on the quarterly average LTD ratio of 77.60 percent from December 31, 2013 through September 30, 2016. During this evaluation period, DCB's LTD ratio ranged from a low of 55.85 percent to a high of 108.92 percent.

Management considers the banks shown in the following table to be similarly situated institutions (SSIs). All are community banks that actively offer similar loan products and have branch locations in the AA.

The quarterly average LTD ratio for each SSI is listed below. Please note that no ranking is intended or implied in this table.

Loan-to-Deposit Ratios		
Financial Institutions	Total Assets \$ (000's) (As of 9/30/2016)	Average Loan-to-Deposit Ratio
Dallas Capital Bank, National Association	751,301	77.60%
Tolleson Private Bank	523,826	76.14%
North Dallas Bank & Trust Company	1,385,717	46.26%
Pegasus Bank	474,913	67.20%
PointBank	456,707	54.16%
Inwood National Bank	2,361,805	78.66%
Sovereign Bank	1,097,839	90.28%

Source: *Institution Reports of Condition from December 31, 2013 to September 30, 2016.*

Lending in Assessment Area

A substantial majority of the number and dollar amount of DCB's loans were originated or purchased inside its AA. As depicted in Table 1 below (\$000s omitted), 93.95 percent of the number and 85.13 percent of the dollar amount of loans were originated or purchased inside the AA.

Table 1 - Lending in Dallas-Collin-Denton AA

Loan Type	Number of Loans				Dollars of Loans				Total	
	Inside		Outside		\$	%	Inside			
	#	%	#	%			\$	%		
Business Loans	233	93.95	15	6.05	248	26,727	85.13	4,669	14.87	31,396

Source: Aggregate loan data collected by bank.

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

The borrower distribution of loans in the AA is "Poor".

The distribution of business loans originated during the review period reflects a poor penetration among businesses of different sizes. As illustrated in Table 2A below, the percentage of loans by number to small businesses (12 percent) is well below the percentage of small businesses in the AA (78 percent). A small business is defined as a business with revenues of \$1 million or less. Although the percentage by the dollar volume of loans (33 percent) is closer to the demographic, we placed more weight on the number of loans originated or purchased in our analysis.

Table 2A - Borrower Distribution of Loans to Businesses in Dallas-Collin-Denton AA

Business Revenues (or Sales)	≤ \$1,000,000	> \$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	77.82	4.79	17.39	100%
% of Bank Loans in AA by #	12.02	84.55	3.43	100%
% of Bank Loans in AA by \$	33.12	62.83	4.05	100%

Source: Aggregate loan data collected by bank; Dun and Bradstreet data.

Geographic Distribution of Loans

The geographic distribution of loans in the AA is reasonable. We did not identify any material or unexplained gaps in our analysis of lending in the AA.

Business loans originated by DCB during the review period reflect an overall reasonable geographic dispersion. As detailed in Table 3A below, the percent of the bank's loans to businesses in the low-income CTs (72 percent) significantly exceeds the percent of businesses located in those geographies (7 percent). The percent of DCB's loans to businesses in the moderate-income CTs (4 percent) lags the percent of businesses located in those geographies (15 percent).

Table 3A - Geographic Distribution of Loans to Businesses in Dallas-Collin-Denton 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
Businesses	6.64	71.67	14.94	3.86	22.47	10.74	55.65	13.73

Source: Aggregate loan data collected by bank; Dun and Bradstreet data.

Responses to Complaints

No CRA-related complaints were made against the bank during this evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank's overall responsiveness to the community development (CD) 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.

The bank 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. To evaluate the bank's efforts, we reviewed DCB's CD activities since the most recent PE dated February 3, 2014.

Number and Amount of Community Development Loans

The level of CD lending reflects an adequate responsiveness to CD needs in the AA.

The bank originated two CD loans totaling \$4.9 million during the evaluation period or 7.39 percent of tier 1 capital. This new lending was centered on rehabilitation, construction and permanent financing of two Dallas multifamily rental properties that provide affordable housing for LMI individuals and families.

Through these loans, the bank is making a positive impact on the CD needs of the AA by providing affordable housing.

Number and Amount of Qualified Investments

The level of qualified investments in the AA reflects an excellent responsiveness to CD needs.

During the evaluation period, DCB made qualified investments and donations in the AA totaling \$2.4 million, the largest part of which is a GNMA CRA Mortgage Backed Security (MBS) totaling \$2.3 million. The MBS is collateralized by twelve single family mortgage loans to LMI borrowers residing in the AA. Other qualified investments during the evaluation period were donations totaling \$121,000 that included \$100,000 in college scholarships to 20 qualifying high school students of LMI families in the AA. Most notable of the remaining amounts donated was \$10,000 to the North Texas Food Bank to help feed LMI AA residents.

The bank also continued its prior period equity investment in the Lone Star New Markets Fund (LSNMF). 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. The LSNMF continues to invest in four Texas companies. Two of the companies are Reliant Worldwide Plastics, LLC, and Tote LS, LLC, both of which are located in the AA. A third company, Concrete Related Products, LLC, is located in adjacent Johnson County. As of December 31, 2016, DCB's book value in the LSNMF is \$5.2 million.

Through its investments and donations, DCB is financing affordable housing for LMI individuals and families, facilitating the retention and creation of jobs, helping provide a college education for LMI students, and providing community services to LMI residents of the AA.

Including the prior period LSNMF investment that continues to benefit the AA, DCB's qualified investments totaled \$7.6 million or 11.55 percent of tier 1 capital.

Extent to Which the Bank Provides Community Development Services

The level of CD services in the AA reflects an adequate responsiveness to CD needs.

Dallas Capital Bank's performance in providing CD services is adequate. Of the bank's 53 employees, 15 officers and one staff employee provided their expertise to 13 CD organizations for a total of 655 hours. Of those 16 employees, six served either as directors and/or committee members. This equates to 38 percent of engaged employees serving in leadership positions.

The following are examples of some of the CD services provided in the AA:

- Fifteen employees provided 109 hours of financial literacy instruction to LMI students and women.
- One employee served as vice chairman and primary advisor to the executive director for a non-profit organization that mentors fatherless young men that are LMI. He provides budgeting, fundraising, and financial advisory services to the organization.
- One employee served on the finance and audit committee of a CD organization that assists and connects LMI seniors to resources in order to preserve their independence.

Responsiveness to Community Development Needs

The bank reflects adequate responsiveness to the CD needs of the community. The board has identified affordable housing, economic development, financial literacy, post-secondary education, and basic community services as its CD goals.

It has allocated dollar and manpower resources to achieve those goals particularly through CD lending and investments, actively providing financial management tools to LMI youth and adults to become successful with their finances, and scholarships to assist LMI students in obtaining job skills and/or professional certifications through higher education.

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 assessment area 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.