



Comptroller of the Currency
Administrator of National Banks

SMALL BANK EXAMINATION

Southwestern District
500 North Akard
1600 Lincoln Plaza
Dallas, Texas 75201-3394

PUBLIC DISCLOSURE

July 30, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Bank of DeSoto, N.A.
Charter Number: 20415**

**2011 North Hampton Road
DeSoto, Texas 75115**

**Office of the Comptroller of the Currency
Southwestern District
500 N. Akard, 1600 Lincoln Plaza
Dallas, Texas 75201-3394**

NOTE: 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 **Bank of DeSoto, N.A.**, prepared by **The Office of the Comptroller of the Currency (OCC)** the institution's supervisory agency, as of July 30, 1998. 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. (BOD) has demonstrated a satisfactory record of performance under the CRA. The bank's lending levels reflect a reasonable responsiveness to its community credit needs. The loan to deposit ratio averaged 79.58% over the last six quarters. This ratio compares favorably with four other similarly situated financial institutions within the same assessment area. According to internal reports, a majority of the bank's loan originations are within its designated assessment area. Our loan review included all Home Mortgage Disclosure Act (HMDA) reportable loans originated in 1997 and 1998. It also included a limited sample of consumer and small business loans originated over the last 18 months. Based on our sample, the level of credit extensions to individuals of different income levels and businesses of different sizes is reasonable. Our review also reflects a good geographic distribution of loans throughout the assessment area. The bank's lending activities penetrate 100% of the geographies within the assessment area.

The following table indicates the performance level of *Bank of DeSoto, N.A.* with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	Bank of DeSoto, N.A. PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints have been received since the prior compliance/CRA examination.		

DESCRIPTION OF INSTITUTION

Bank of DeSoto, N.A. (BOD) is an independently owned, community bank located in the city of DeSoto, Texas, approximately 15 miles south of downtown Dallas. BOD has only one banking office, offering an automated teller machine (ATM), a mini bank with extended hours and a drive up facility onsite. As of June 30, 1998, the bank reported total assets of \$83 million, with net loans of \$56 million. The bank's primary lending focus is consumer loans. Consumer loans and 1-4 single family residential mortgages represent 66% of the total loan portfolio. Commercial real estate and commercial loans represent 23% and 11% of total loans, respectively. BOD does not participate in government guaranteed loan programs for housing, small business, or small farms. A full range of deposit and other banking services are available. Loan and deposit products offered are commensurate with the bank's size and resources. Neither the bank's financial condition nor the legal, regulatory, or economic environment hinder its ability to make loans and provide reasonable banking services.

DESCRIPTION OF THE ASSESSMENT AREA

BOD defines its assessment area as 24 census tracts which include the cities of DeSoto, Cedar Hill, Ovilla, Midlothian, and portions of Duncanville, Lancaster, Red Oak, and Waxahachie. This assessment area is legal and does not arbitrarily exclude low- and moderate-income areas. The table below reflects the income characteristics of the bank's assessment area. 1990 Census Bureau data reflects the population of this assessment area as 146 thousand persons, 40 thousand families, and 50 thousand households. The 1990 Census Bureau median family income and the 1998 Housing and Urban Development (HUD) median family income for the Metropolitan Statistical Area (MSA) which includes Dallas and Ellis counties is \$38,754 and \$54,400 respectively. Based on the 1998 HUD median family income, 13% of the families are low income, 18% are moderate income, 25% are middle income, and 44% are upper income. Ninety one percent of the available housing units, including rental units, are occupied. The median age for these units is 19 years. The median value is \$80,064.

Income Characteristics of Geographies		
Tract Characteristic	Count	%
Low	0	0%
Moderate	2	8%
Middle	13	54%
Upper	9	38%
NA	0	0%
Total	24	100%

The city of DeSoto and the surrounding communities within the assessment area are considered a light manufacturing and bedroom community environment. The local economy is very strong and experiencing rapid

growth in recent years. BOD operates in a competitive banking environment, with at least four other community banks and four branches of multinational and regional financial institutions in the area. During this evaluation, we interviewed two community contacts. Those contacts identified the need for pre-development funding of small commercial projects and more support in educational programs by the financial institutions. Since the DeSoto community is a relatively affluent community, many businesses in the area are having a hard time attracting entry level and minimum wage employees. The community contacts we interviewed also felt that access to public transportation is a strong need.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loans-To-Deposits

BOD’s lending levels are good and commensurate with its size and available resources. The lending levels compare favorably with the four other competing financial institutions within the assessment area. BOD’s loan to deposit ratio as of June 30, 1998, was 73.73%, averaging 79.58% over the last six quarters. The asset sizes of the competing institutions range from \$32 million to \$130 million. Their average loan to deposit ratios range from 46% to 79% over the same time period.

Assessment Area Concentration

BOD’s internal loan distribution report shows 59% of the total number and 62% of the total dollar volume of loans are within the identified assessment area. Based on our review of the data, the internal reports are considered reliable. Our loan review sample of all 1997 and year-to-date HMDA loans originated indicate 62% of the number and 54% of the dollar volume of these loans were extended within the assessment area. The following tables illustrate the volume of originations and locations, relative to the assessment area.

Internal Report - Lending Within the Assessment Area - Originations/Purchases						
Product	Total Originations		Inside the Assessment Area			
	#	\$ (000)	#	%	\$ (000)	%
All Loans as of 6/30/98	3,086	\$72,027	1,819	59%	\$44,641	62%

* +/- 3% Margin of Error

Volume of All Home Mortgage Loan Originations in 1997 and YTD 1998						
Product	Total Originations		Inside the Assessment Area			
	#	\$ (000)	#	%	\$ (000)	%
Home Purchase/Refinance	56	\$4,559	37	66%	\$2,838	62%
Home Improvement	8	\$138	6	75%	\$105	76%
Multifamily	2	\$452	1	50%	\$132	29%
Total 1997	66	\$5,149	44	67%	\$3,075	60%
Home Purchase/Refinance	18	\$1,876	7	39%	\$541	29%
Home Improvement	2	\$43	2	100%	\$43	100%
Multifamily	1	\$322	1	100%	\$322	100%
Total YTD 1998	21	\$2,241	10	48%	\$906	40%
Grand Total	87	\$7,390	54	62%	\$3,981	54%

Source: Bank of DeSoto HMDA Loan Application Registers, HMDA Disclosure Statement

Lending to Borrowers of Different Income Levels and Businesses of Different Sizes

The distribution of loans to borrowers of different income levels and businesses of different income sizes is reasonable. The table below depicts a good distribution of loans to all borrower income levels. Additionally, there is a good distribution of small loans to businesses with a diverse revenue range.

OCC Sample - Distribution of Loans Made Within the Assessment Area in 1997 and YTD 1998 By Income Level of the Borrower								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Characteristics of Families	5,408	13%	7,094	18%	10,217	25%	17,713	44%
Loan Product	#	%	#	%	#	%	#	%
HMDA Reported:*	0	0%	10	19%	19	37%	23	44%
Home Purchase/Refinance	0	0%	8	18%	15	34%	21	48%
Home Improvement	0	0%	2	25%	4	50%	2	25%
Multifamily*	0	0%	0	0%	0	0%	0	0%
Consumer - Secured	9	26%	12	34%	9	26%	5	14%
Consumer - Unsecured	5	14%	7	20%	10	29%	13	37%
Grand Total	14	11%	29	24%	38	31%	41	34%

* There were 2 Multi-Family loans to borrowers whose income information was not available.

OCC Sample - Distribution of Small Loans Made to Businesses of Different Sizes in 1997 and YTD 1998								
Revenue Ranges	< \$100M		\$100M - \$500M		\$500M - \$1MM		>\$1MM	
	#	\$ (000)	#	\$ (000)	#	\$ (000)	#	\$ (000)
Loans to Businesses	12	\$290	19	\$969	13	\$592	15	\$986

Geographic Distribution of Loans

Based on our sample, the geographic distribution of loans throughout the assessment area is reasonable. In the aggregate, loans made in moderate income census tracts are low. The table below shows the dispersion of HMDA reportable loans, consumer secured/unsecured, and small loans to businesses. The data favors the middle and upper income population. Census data indicates a majority of the families within the assessment area, 44%, are upper income and 56% of those upper income families live in upper income census tracts. It is reasonable, based on the affected loan types, for a majority of these loans to be centered in the middle and upper-income segments of the assessment area. Management states that the loan to deposit ratios are stable and reasonable in all census tract income categories. Internal reports indicate the bank's lending activities have resulted in 100% penetration of the total geographies within the assessment area.

OCC Sample - Distribution of Loans Originated Within the Assessment Area in 1997 and YTD 1998 By Income Level of the Census Tract								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	0	0%	2	8%	13	54%	9	38%
Census Tracts Penetrated (% of tracts in income group)	0	0%	2	100%	13	100%	9	100%
Loan Product	#	%	#	%	#	%	#	%
HMDA:	0	0%	1	2%	26	48%	27	50%
Home Purchase/Refinance	0	0%	0	0%	24	55%	20	45%
Home Improvement	0	0%	1	13%	1	13%	6	75%
Multifamily	0	0%	0	0%	1	50%	1	50%
Consumer - Secured	0	0%	1	3%	19	54%	15	43%
Consumer - Unsecured	0	0%	0	0%	12	34%	23	66%
Small Loans to Businesses	0	0%	0	0%	22	37%	37	63%
Grand Total	0	0%	2	1%	79	43%	102	56%

FAIR LENDING ANALYSIS

The analysis we performed did not disclose any discriminatory treatment or illegal credit practices on a prohibited basis. We found no evidence of noncompliance with the provisions of any anti-discrimination laws or regulations at this bank.