



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

February 28, 2001

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**Town North National Bank
Charter Number 15980**

**4455 LBJ Freeway
Farmers Branch, TX 75381**

**Comptroller of the Currency
ADC - Dallas North
500 North Akard Street Suite 1600
Dallas, TX 75201**

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 Town North National Bank, Farmers Branch, TX as prepared by **The Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of February 28, 2001. 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.

The following factors support this overall rating:

- Ë The bank's quarterly average loan-to-deposit ratio of 81% exceeds the standards for satisfactory performance given the bank's size, financial condition, and assessment area credit needs.
- Ë Loan originations exceed the standards for satisfactory performance. Of the loan originations from 1998 to 2000, 81% were located within the bank's assessment area.
- Ë The commercial loans sampled meet the standards for satisfactory performance. Of the commercial loans sampled, 55% were originated to businesses with revenues of less than \$1.0 million.
- Ë There is no evidence of illegal discrimination.
- Ë There are no CRA complaints filed against the bank during this rating period.

DESCRIPTION OF INSTITUTION

Town North National Bank (TNNB) is a commercial bank located in Farmers Branch, Texas. The bank is a wholly owned subsidiary of CU Bank Shares, Inc., a Texas one-bank holding company. The bank has no financial or legal obstacles affecting its ability to meet community credit needs. TNNB operates out of a main office, serving counties within the Dallas metropolitan statistical area (MSA). TNNB was rated "Satisfactory" in the previous CRA public evaluation dated December 9, 1996.

As of December 31, 2000, TNNB had \$274 million in total assets. The bank has only one office and an ATM located at 4455 LBJ Freeway. At this location, the bank has drive-up facilities that provide extended weekday and Saturday hours. In addition, TNNB provides various banking needs to its elderly and small business customers, who are in close proximity to the bank, through the use of its mobile branch.

TNNB's main competition consists of branches of larger national banks, state banks, and also area credit unions. Several of these large financial institutions operate within the bank's assessment area. The bank is a full service institution, providing various deposit and loan products. Based on conversations with bank management, TNNB's primary lending focus is commercial loans to small- to medium-sized businesses. As of December 31, 2000, the bank's net loans to total assets totaled 48%. The following table portrays the principal loan mix of TNNB:

TYPES OF DOMESTIC LOANS OUTSTANDING DECEMBER 31, 2000 (\$000's)		
<i>TYPE OF LOANS</i>	<i>AMOUNT</i>	<i>PERCENTAGE</i>
Commercial Loans, including real estate	\$ 55,912	42%
1-4 Family Residential Loans	\$ 42,575	32%
Installment	\$ 26,551	20%
Other Loan Types, excludes consumer loans	\$ 5,136	4%
Construction & Land Development	\$ 2,873	2%
TOTAL	\$133,047	100%

DESCRIPTION OF ASSESSMENT AREA

TNNB's assessment area includes all of Dallas County, Southwest Collin County, and Southeast Denton County. The total number of census tracts within the assessment area is 490. All of these areas are within the Dallas MSA, meet regulatory guidelines, and do not arbitrarily exclude any low- or moderate-income areas. The following table reflects the demographics for the assessment area:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population - Year 2000	
Number of Families	583,777
Number of Households	861,086
Geographies	
Number of Census Tracts/BNA	490
% Low-Income Census Tracts/BNA	11%
% Moderate-Income Census Tracts/BNA	24%
% Middle-Income Census Tracts/BNA	31%
% Upper-Income Census Tracts/BNA	32%
% NA Census Tracts/BNA	2%
Median Family Income (MFI)	
1990 MFI for AA	\$38,754
1999 HUD-Adjusted MFI	\$58,200
2000 HUD-Adjusted MFI	\$60,800
Economic Indicators	
Unemployment Rate*	2.5%
2000 Median Housing Value	\$93,766
% of Households Below Poverty Level	10.39%

* As of December 2000, Dallas MSA per Bureau of Labor Statistics

The total occupied housing units for the assessment area is at 89%, with owner-occupied housing at 48% and rental-occupied housing at 41%. Vacant housing units in the assessment area are at 11%.

The largest industries in the assessment area are retail trade, insurance, banking, services, transportation, electronics, and manufacturing. The largest employers in the bank's market area are the following: ST Micro-Electronics, a computer-chip manufacturing business, EDS, Kimberly-Clark Corporation, J.C. Penney, DFW International Airport, American Airlines, Texas Instruments, University of North Texas, Texas Woman's University, and Union Pacific Corporation.

We determined the credit needs of the community through discussions with management and community contacts. Management stated that the community credit needs are small- to medium-sized business loans. A member of the Farmers Branch Chamber of Commerce stated that there is a need for a program that provides loans to "start-up" businesses. Other community contacts stated that area financial institutions are meeting community credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The largest portion of TNNB's loan portfolio is in commercial loans, including commercial real estate loans, residential mortgage loans, and consumer installment loans. For a majority of this analysis, we used the bank's lending activity from January 1, 1999, to December 31, 2000, to determine

performance regarding CRA. However, the total number of loans originated from January 1, 1998, to December 31, 2000 was used to determine the bank's lending patterns within its stated assessment area.

LOAN TO DEPOSIT ANALYSIS

Given TNNB's size, financial condition, and assessment area credit needs, the bank exceeds the standard for satisfactory performance. The bank's 18-quarter average loan-to-deposit (LTD) ratio is 81%.

We compared TNNB's quarterly average LTD ratio to its peer group, which consists of financial institutions with average assets between \$100 million and \$300 million with two or fewer banking offices located in an MSA. In addition, we compared the LTD ratio to institutions located within the bank's assessment area that TNNB considers its competition. Information for these financial institutions are detailed in the following table:

Institution	Assets - As of 12/31/00 (000's)	Average LTD Ratio
Peer Group	100,000 - 300,000	71%
Preston National Bank	32,612	81%
First Mercantile Bank, N.A.	189,661	73%
North Dallas Bank & Trust Co.	729,127	43%
Texas Capital Bank, N.A.	910,042	73%
<i>Town North National Bank</i>	<i>274,421</i>	<i>81%</i>

LENDING IN ASSESSMENT AREA

Based on our review of TNNB's lending patterns, the bank exceeds the standards of satisfactory performance. We took into consideration the bank's lending activity from January 1, 1998, to December 31, 2000. Of the loans reviewed, 81% were within the assessment area, totaling \$134.1 million or 90%.

TOTAL LOANS ORIGINATED FROM 1998 TO 2000								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Commercial	295	89	70,157	94	35	11	4,712	6
Home-related	222	89	32,148	97	27	11	1,146	3
Installment	1,298	78	31,798	79	370	22	8,641	21
Total	1,815	81%	\$134,103	90%	432	19%	\$14,499	10%

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES

The bank meets the standards for lending to borrowers of different incomes and to businesses of different sizes. While home mortgage lending to borrowers of different income levels needs improvement, more weight was given to performance in commercial lending since this is TNNB's primary lending focus.

Borrowers of Different Incomes

TNNB's home mortgage lending to borrowers of different income levels needs improvement. The bank's record of lending within its assessment area (AA) revealed that originations to families classified as low-income of 1% and moderate-income of 7%, compared to census data which reflects 7% of families in the bank's assessment area classified low-income and 21% classified moderate-income.

However, the bank's record of installment lending to borrowers of different income levels is good, as the following table illustrates:

INSTALLMENT								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	7%		23%		38%		32%	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2000	20	7	15	12	15	12	50	69
1999	23	14	18	12	6	7	53	67
Total	22%	10%	16%	12%	11%	10%	51%	68%

Businesses of Different Sizes

TNNB's lending to businesses of different sizes is adequate. We reviewed a sample of 40 commercial loans originated by the bank. Of the sample reviewed, 22 or 55% were made to businesses with revenues of less than \$1.0 million. The total dollar volume of these loans is \$7.0 million or 63% of the sample size. The following table illustrates the bank's lending penetration to businesses of different sizes.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	85%	10%
% of Bank Loans in AA #	55%	45%
% of Bank Loans in AA \$	63%	37%

* The total percent of business in the assessment area will not equal to 100% because some of the businesses did not report revenues.

GEOGRAPHIC DISTRIBUTION OF LOANS

Based on competitive factors and the size and location of the bank, TNNB has a reasonable distribution of loans in its assessment area. We reviewed a sample of 40 commercial loans and 40 installment loans originated in 1999 and 2000 to determine the bank's penetration within its assessment area. In

addition, residential real estate information was obtained from the bank's 1999 and 2000 Home Mortgage Disclosure Act-Loan Activity Report. The following tables illustrate the geographic distribution of the bank's lending activities within its assessment area.

distribution of commercial loans to low- and moderate-income census tracts totaling 41%, with 1% to low-income census tracts and 40% to moderate-income census tracts.

Management has stated that the lack of penetration to low-income census tracts is because these areas are not geographically accessible to the bank, which is a true assertion, based on the one location. In addition, the low-income census tracts are mostly residential with little or no commercial businesses within the area. As stated earlier, the bank's main focus is commercial lending. As such, management was encouraged to be more cognizant of future efforts that are more inclusive of low- and moderate-income census tracts.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	4%		18%		37%		41%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
TOTAL	5%	1%	16%	7%	18%	20%	61%	72%

The number of residential loans made to low- and moderate-income census tracts is adequate in comparison to the percentage of owner occupied housing within the bank's assessment area.

INSTALLMENT								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	8%		24%		37%		31%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
TOTAL	0%	0%	15%	23%	25%	19%	60%	58%

Based on our sample of 40 loans, the bank has no penetration of installment lending to low-income census tracts within the assessment area. This is somewhat mitigated by the fact that the bank has only one location, which is not in close proximity to low-income census tracts.

Moreover, an analysis performed by The Centrax Group of the bank's total loan originations from January 1, 1998, to December 31, 2000, illustrates TNNB's distribution of installment loans to low- and moderate-income census tracts totaled 8.1%, with 0.9% to low-income census tracts and 7.2% to moderate-income census tracts.

QUALIFIED INVESTMENTS

- Ë In 1999 and 2000, TNNB awarded \$24,000 to the Mayor's Scholarship Awards. The scholarships are awarded to students who have a significant financial need.
- Ë TNNB maintains \$50,000 in a non-interest bearing deposit account with Common Ground Community Federal Credit Union. The credit union uses these funds to assist individuals in obtaining loans. Because of high debt ratios and limited or poor credit history, these individuals would normally have difficulty in obtaining loans from other sources.
- Ë TNNB invested \$66,250 in an escrow account at TIB-The Independent Bankers Bank. The escrow account was established by Independent Bankers Capital Fund, L.P., which is a Delaware limited partnership. The partnership was organized as a small business investment company licensed under the Small Business Administration to make, manage, own, and supervise investments.

RESPONSE TO COMPLAINTS

TNNB has not received any complaints during this evaluation period.

RECORD OF COMPLIANCE WITH ANTIDISCRIMINATION LAWS

An analysis of two years public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. The analysis of the information revealed no basis for the OCC to conduct a comprehensive fair lending examination in connection with the CRA evaluation this year.