



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Southern District
500 North Akard, Suite 1600
Dallas, Texas 75201-3394

PUBLIC DISCLOSURE

December 31, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Dallas National Bank
Charter Number 23143**

**2725 Turtle Creek Boulevard
Dallas, Texas 75219**

**Comptroller of the Currency
Dallas Field Office
17300 Dallas Parkway, Suite 2020
Dallas, Texas 75248**

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.

Dallas National Bank has a satisfactory record of meeting community credit needs. This rating is based upon the following:

- Loan originations meet the standards for satisfactory performance. A majority of the number of consumer and commercial loans were made within the bank's assessment area (AA). Of the loans we reviewed, 70% of consumer loans and 60% of commercial loans are within the AA;
- The distribution of loans made to businesses of different sizes during 2001 through 2003 equaled or exceeded the standards for satisfactory performance; and
- The geographic distribution of home mortgage loans made within the low- and moderate-income census tracts of the AA during 2001 and 2002 and within moderate-income census tracts in 2003 is excellent.

DESCRIPTION OF INSTITUTION

Dallas National Bank (DNB) is an independently owned community bank that was chartered in 1997. As of December 31, 2003, DNB reported total assets of \$81 million. Ownership of the bank is widely held, with no individual holding control. The two largest single shareholders each own approximately five percent of outstanding shares. DNB is located in a moderate-income census tract, on Turtle Creek Boulevard, approximately two miles north of the downtown Dallas Central Business District. The neighborhoods surrounding the bank are quite affluent. The bank occupies leased space in the Republic Insurance Building. Competition in the assessment area is quite strong, with all major banks having a presence within a two-mile radius of the bank.

In June 2003, DNB opened its only branch in the northeast section of Dallas County. That branch, having limited activity, was not included in this performance evaluation.

DNB is a full service institution, offering a variety of deposit and loan products and services. The banking office includes an ATM and drive-up facility and provides extended weekday and Saturday hours. The bank also offers Internet banking that allows customers access to account information and the ability to conduct a number of transactions, including bill pay. The primary lending focus is commercial loans. As of December 31, 2003, DNB had a "net loans to total assets" ratio of 40%. The following table shows the bank's loan portfolio mix.

Loan Category	\$ (000)	%
Commercial (including real estate)	18,965	56%
Residential Real Estate	5,931	17%
Consumer	5,216	15%
Construction & Development	3,781	11%
Other Loans	80	1%
Total	\$33,973	100%

DNB was rated “Satisfactory” in its previous CRA performance evaluation dated June 23, 2000. The bank does not have any financial or legal obstacles that hinder its ability to meet community credit needs.

DESCRIPTION OF A PORTION OF DALLAS COUNTY

Based on 1990 census data, the bank’s assessment area (AA) included 130 census tracts within a portion of Dallas County. Based on 2000 census data, there are now 131 census tracts in the AA. DNB’s AA meets the requirements of the CRA regulation. Competition in this AA is very strong, with banks of all sizes maintaining offices.

The following table depicts the demographics of the bank’s AA:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA		
<i>Census Year</i>	<i>1990</i>	<i>2000</i>
<i>Population</i>		
Number of Families	106,441	119,931
Number of Households	204,736	227,067
<i>Geographies</i>		
Number of Census Tracts	130	131
# - % Low-Income Census Tracts	17 – 13%	19 – 15%
# - % Moderate-Income Census Tracts	26 – 20%	24 – 18%
# - % Middle-Income Census Tracts	28 – 22%	29 – 22%
# - % Upper-Income Census Tracts	56 – 43%	57 – 44%
# - % N/A Census Tracts	3 – 2%	2 – 1%
<i>Median Family Income (MFI)</i>		
<i>1990 MFI for AA</i>	\$51,833	
2001 HUD-Adjusted MFI	\$64,400	
2002 HUD-Adjusted MFI	\$66,500	
<i>2000 MFI for AA</i>		\$69,706
2003 HUD-Adjusted MFI		\$65,000
<i>Economic Indicators</i>		
Unemployment Rate	3.2%	2.6%
2002 Median Housing Value	\$132,215	
2003 Median Housing Value		\$164,729
% of Households on Social Security	18%	16%
% of Households Below Poverty Level	11%	11%
% of Households on Retirement	10%	9%

Based on 1990 census information, the total occupied housing units in the AA were 87%, with 36% being owner-occupied and 51% being rental-occupied. Vacant housing units were 13%. Based on 2000 census information, total occupied housing units were 93%, with owner-occupied housing at 37% and rental-occupied housing at 56%. Vacant housing units are 7%.

We obtained information concerning the credit needs within the AA from discussions with management and community contacts on file with the Office of the Comptroller of the Currency. Management and community contacts indicate that the community credit needs include small business loans and affordable housing loans. DNB does offer a range of small business loans, however, the bank only offers conventional residential mortgage lending products.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Although the bank's performance in meeting community credit needs is satisfactory overall, improvement is needed in the following areas:

- The loan-to-deposit (LTD) ratio of 54%, net of bankruptcy deposits, is less than reasonable taking into consideration the bank's size, financial condition, and assessment area credit needs.
- The bank's lending activities to low-income borrowers is less than reasonable and falls short of the standards for satisfactory performance. The distribution of both residential and consumer loans to low-income borrowers based upon 1990 and 2000 census information is poor.
- Lending to low-income census tracts within the bank's AA. No residential loans were made in low-income census tracts during 2003.

Lending in Assessment Area

Because DNB is a HMDA reporter, we reviewed all home related loans originated from January 1, 2001 through December 31, 2003. We also reviewed a sample of 20 each consumer and commercial loans originated during the same time period. Based on our review of DNB's lending patterns, the bank meets the standards for satisfactory performance in lending within its AA for consumer and commercial loans. However, DNB does not meet the standards for satisfactory performance for home mortgage loans. Management is aware of this and indicated that the bank makes a low volume of home mortgage related loans. All mortgage loan requests with 15- or 30-year repayment terms are submitted to the Turtle Creek Mortgage Company. This company is 50% owned by the bank's parent. Most mortgage loans made are accommodations to customers, many of whom work within the AA, but live outside the AA. The following table depicts the distribution of loans within and outside of the AA.

TOTAL LOANS REVIEWED – (1/1/01 – 12/31/03)								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Home mortgage loans	34	38%	3,381	53%	56	62%	3,033	47%
Consumer loans	14	70%	433	53%	6	30%	381	47%
Commercial loans	12	60%	1,482	29%	8	40%	3,697	71%
Total Reviewed	60	46%	5,296	43%	70	54%	7,111	57%

Loan-to-Deposit Ratio

DNB's loan-to-deposit (LTD) ratio is less than reasonable taking into consideration the bank's size, financial condition, and assessment area credit needs. The LTD falls short of the standards needed for satisfactory performance and is rated as needs to improve. The bank's LTD ratio for the fifteen quarters covering March 31, 2000 through December 31, 2003 averaged 47%. The average LTD ratio improves to 54% when the more than \$3 million in bankruptcy court public deposits the bank holds are netted out. By law, these deposits are not available for lending purposes. However, even after excluding these bankruptcy funds, DNB's average LTD ratio is well below similar banks within the assessment area that had LTD ratios ranging from 62% to 156%. In discussing the bank's LTD ratio, management noted that a large number of the bank's deposit customers are of retirement age or are affluent and generally not in need of loan products.

Institution	Assets ('000's) As of 12-31-2003	Average LTD Ratio
Tolleson Private Bank*	74,945	156%
Lone Star Bank	222,801	82%
Signature Bank	51,875	74%
Live Oak State Bank**	64,555	73%
American Bank, N.A.	24,336	70%
Oaks Bank & Trust	93,647	62%
Dallas National Bank	81,431	47%

* Four reporting quarters; ** Nine reporting quarters

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

DNB meets the standard for satisfactory performance in lending to borrowers of different incomes and to businesses of different sizes. Our sample indicates that the number of loans to businesses of different sizes approximated or exceeded the standards for satisfactory performance during 2001 and 2002 and exceeded the satisfactory standard for 2003. Additionally, the number of residential loans originated in 2003 and the number of consumer loans we sampled for all the years considered for this evaluation, which were made to moderate-income borrowers, exceeded the satisfactory performance standards.

However, the number of residential loans to low-income borrowers based upon 1990 and 2000 census information is poor. Similarly, based upon data from each of these census periods, there is a poor distribution of consumer loans made to low-income households located within the bank's AA. Management has been informed that improvements are needed regarding lending to low-income borrowers. They attribute the poor distribution of residential real estate loan products to the fact that the bank's products are conventional and require closing costs and down payments that low-income individuals typically are unable to produce. Additionally, during this evaluation period, the bank did not have any branches.

The following tables illustrate DNB's performance.

BORROWER DISTRIBUTION OF HOME MORTGAGE LOANS (1/1/01 – 12/31/02)								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families 1990 Census	21%		15%		17%		47%	
LOANS by TYPE	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Home mortgage loans	0	0	0	0	12	13	64	66

No income reported for 24% of number and 21% of amount.

BORROWER DISTRIBUTION OF HOME MORTGAGE LOANS (1/1/03 – 12/31/03)								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families 2000 Census	26%		17%		15%		42%	
LOANS by TYPE	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Home mortgage loans	0	0	22	4	0	0	56	85

No income reported for 22% of number and 11% of amount.

BORROWER DISTRIBUTION OF CONSUMER LOANS (1/1/01 – 12/31/02)								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households 1990 Census	23%		18%		18%		41%	
LOANS by TYPE	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Consumer loans	0	0	25	22	10	5	65	73

BORROWER DISTRIBUTION OF CONSUMER LOANS (1/1/03 – 12/31/03)								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households 2000 Census	24%		19%		18%		39%	
LOANS by TYPE	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Consumer loans	5	1	20	9	5	2	70	88

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES (1/1/01 – 12/31/02)		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses* 1990 Census	60%	9%
% of Bank Loans in AA #	55%	45%
% of Bank Loans in AA \$	51%	49%

*Revenues not reported for 31% of Businesses in AA.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES (1/1/03 – 12/31/03)		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses* 2000 Census	57%	9%
% of Bank Loans in AA #	70%	30%
% of Bank Loans in AA \$	53%	47%

*Revenues not reported for 34% of Businesses in AA

Geographic Distribution of Loans

DNB's geographic dispersion of loans within its AA is reasonable and meets the standards for satisfactory performance. The number and dollar volume of residential loans made in low- and moderate-income census tracts in 2001 through 2002, and in moderate-income census tracts in 2003, is excellent as depicted in the tables below. However, no residential loans were made in low-income census tracts during 2003. In addition, while the dispersion of consumer and small business loans made in low- and moderate-income census tracts in 2001-2002 was below the percent of households and businesses located in those areas, the bank's performance improved in 2003, particularly within moderate-income census tracts.

GEOGRAPHIC DISTRIBUTION OF HOME MORTGAGE LOANS (1/1/01 – 12/31/02)								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied 1990 Census	4%		10%		25%		61%	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Home Purchase	16	17	16	6	16	13	52	64

GEOGRAPHIC DISTRIBUTION OF HOME MORTGAGE LOANS (1/1/03 – 12/31/03)								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied 2000 Census	4%		12%		23%		61%	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Home Purchase	0	0	44	11	22	11	34	78

GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS (1/1/01 – 12/31/02)								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households 1990 Census	11%		24%		28%		37%	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Consumer	5	3	10	7	25	21	60	69

GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS (1/1/03 – 12/31/03)								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households 2000 Census	15%		22%		27%		36%	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Consumer	15	14	15	10	20	14	50	62

GEOGRAPHIC DISTRIBUTION OF SMALL LOANS TO BUSINESSES (1/01/01 – 12/31/02)								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses 1990 Census	10%		30%		22%		37%	
Loan Type	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Commercial	5	18	20	15	30	32	55	36

GEOGRAPHIC DISTRIBUTION OF SMALL LOANS TO BUSINESSES (1/01/03 – 12/31/03)								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses 2000 Census	9%		28%		23%		40%	
Loan Type	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Commercial	5	1	25	32	30	23	40	43

Responses to Complaints

Dallas National Bank did not receive any consumer complaints related to its CRA performance during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.