



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

November 29, 2010

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Town North Bank, National Association  
Charter Number: 15980

4455 LBJ Freeway  
Dallas, TX 75244

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

**The Lending Test is rated: Satisfactory.**

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

The overall CRA performance for Town North Bank, NA (TNB) is "Satisfactory" due to the adequate performance in community development investments, lending and service activities, combined with the bank's reasonable geographic dispersion of residential real estate and commercial loans within the assessment area (AA). The following factors further support this rating:

- TNB's quarterly average loan-to-deposit ratio of 87% reflects reasonable performance given the bank's size, financial condition, and AA credit needs.
- Loan originations show the majority inside the AA. Of the residential and small business loans originations from 2007 to 2009, 65% of the number and 80% of the dollar volume were within the bank's AA.
- There is no evidence of illegal discrimination.

## **Scope of Examination**

The evaluation period is July 1, 2006, to September 30, 2010. TNB management is focused on commercial lending with a large percentage being small business ventures. TNB is in a market where residential real estate loans must be reported; therefore, we reviewed residential real estate loans originated during this same period. Significant weight was given to the bank's performance in community development investments and services.

The September 30, 2010 Call Report confirms management's identification of being a commercial lender with the majority of the loan portfolio consisting of credits for commercial purposes and commercial real estate loans. Accordingly, the lending test included an analysis of small business loan activity. We randomly selected 60 commercial loans originated within the evaluation period. The residential real estate loan sample segments home purchase, home improvement, and home refinancing loans as reported on the Home Mortgage Disclosure Act (HMDA) reports for 2007, 2008, and 2009. The analysis also relied on data collected in the 2000 U.S. Census.

## **Data Integrity Review**

Conclusions are based on loan data gathered in the normal course of business. HMDA requires the bank to maintain data on applications and loans for home purchases, home improvements, and to refinance one-to-four units and multifamily dwellings. In addition, TNB collects information on small business loans and compiles that information for CRA purposes. Performance Evaluation procedures include sampling of both HMDA and

CRA small business loans to confirm the data integrity of the information. That review occurred earlier in 2010 and revealed no significant discrepancies in the collected data. Analyses for the purposes of the lending test in this Evaluation relied on HMDA and small business information.

## **Description of Institution**

TNB is a commercial bank located in Farmers Branch, Texas contiguous to the City of Dallas and is a wholly owned subsidiary of CU Bank Shares, Inc., a Texas one-bank holding company. The bank's business plan has historically funded growth as necessary with distinct reliance on wholesale sources. A majority of the bank's liabilities are not traditional retail deposits. The bank has experienced financial constraints for approximately the last two years that have restricted lending opportunities and capacity. TNB operates from one location, serving portions of counties within the Dallas-Plano-Irving, Texas Metropolitan Statistical Area (MSA). TNB received an "Outstanding" rating in the previous CRA Performance Evaluation dated July 10, 2006.

The bank's single office is located at 4455 LBJ Freeway. Lobby hours are extended to serve the local community on Friday with extended motor bank hours on weekdays and Saturday. The bank provides a mobile branch once a week to the residents at Preston Place Retirement Community in Plano, Texas. There is one on-site ATM, but TNB offers customers access to a network of over 32,000 ATMs nationwide without surcharge fees to the depositors. Management grants exemption of deposit account service fees for most non-profit organizations. The bank offers a deposit product to small businesses called Business Online Banking (BOB). BOB is a free business account for customers with a limited number of items processed per month and includes free online banking and electronic statements. A variety of treasury management services including remote deposit, ACH origination, wire transfers, positive pay, sweep accounts, lockbox services, and merchant card services are available to businesses of all sizes.

As of September 30, 2010, TNB had approximately \$884 million in total assets. TNB is a full service institution providing various banking products and services to the communities that are in close proximity to its location. In addition to providing standard products such as checking, savings, safe deposit boxes, and a variety of loan products, the bank also offers insurance and investment products, credit cards, and cash management services. TNB has a mortgage warehousing operation. The bank was granted a separate charter as a subsidiary, Town North Bank Nevada (TNB Nevada), under the Competitive Equality Banking Act (CEBA). TNB Nevada holds primarily credit card receivables as assets. TNB Nevada is subject to a separate regulatory examination and CRA Performance Evaluation process.

TNB's competitors include branches of larger banks and area credit unions. Competition is intense in this market with 67 financial institutions operating 1,068 branches within the three counties of which portions comprise the bank's AA. As of September 30, 2010, net loans to total assets at TNB totaled 45%. The following table portrays the mix of loan categories within the portfolio:

| <b>Loan Category</b>              | <b>\$ (000)</b> | <b>%</b>    |
|-----------------------------------|-----------------|-------------|
| Commercial, including Real Estate | 135,056         | 43%         |
| Consumer                          | 128,809         | 41%         |
| Residential Real Estate           | 35,877          | 11%         |
| Construction & Development        | 9,037           | 3%          |
| Farmland                          | 4,280           | 1%          |
| Other Loans                       | 458             | <1%         |
| <b>Total</b>                      | <b>313,517</b>  | <b>100%</b> |

## **Description of Assessment Area**

TNB's AA includes approximately the northern half of Dallas County, southwest Collin County, and southeast Denton County. All of these areas are within the Dallas-Plano-Irving, Texas MSA, meet regulatory guidelines and do not arbitrarily exclude any low or moderate income (LMI) areas. The following table reflects the demographics for the AA:

| <b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF ASSESSMENT AREA</b> |              |
|--|--------------|
| Years  | 2007-2010    |
| Census Year  | 2000         |
| <b><i>Population</i></b>   |              |
| Number of Families   | 644,547      |
| Number of Households   | 993,286      |
| <b><i>Geographies</i></b>  |              |
| Number of Census Tracts  | 416          |
| # - % Low-Income Census Tracts                                     | 25 – 6.01%   |
| # - % Moderate-Income Census Tracts                                | 90 – 21.63%  |
| # - % Middle-Income Census Tracts                                  | 130 – 31.25% |
| # - % Upper-Income Census Tracts                                   | 167 – 40.14% |
| # - % NA Census Tracts   | 4 – 0.96%    |
| <b><i>Median Family Income (MFI)</i></b>                           |              |
| 2000 MFI for AA  | \$70,003     |
| HUD-Adjusted MFI   | \$68,900     |
| <b><i>Economic Indicators</i></b>                                  |              |
| Unemployment Rate  | 8.20%        |
| Median Housing Value   | \$143,966    |
| % of Households on Retirement                                      | 9%           |
| % of Households Below Poverty Level                                | 8%           |
| % of Households on Social Security                                 | 13%          |
| <b><i>Housing Type</i></b>   |              |
| Owner-occupied   | 52%          |
| Rental   | 43%          |
| Vacant   | 5%           |

Large industries in the AA include retail trade, insurance, banking services, transportation, electronics, and manufacturing. Larger employers in the area are the following national and regional companies: Wal-Mart Stores.; AMR Corp. (American Airlines); Bank of America; Baylor Health Care System; Texas Health Resources; AT&T; Lockheed Martin Aeronautics Company; and Verizon Communications.

We determined the credit needs of the community through discussions with management and input from community contacts. Management stated that the community credit needs are small to medium-sized business loans.

## Conclusions with Respect to Performance Tests

### LENDING TEST

TNB meets the standard of satisfactory performance. The bank's strengths are its lending within its AA and geographic distribution of loans. TNB originated 1,480 loans totaling \$270 million during this evaluation period. Of these loans, 846 totaling \$232 million were for commercial purposes while the remaining 634 totaling \$38 million were for personal purposes. Focusing on those personal purpose loans, TNB's lending penetration to low-income borrowers is low in comparison to the percentage of low-income families within the AA. However, as detailed later in this Evaluation, the level of community development lending is reasonable and qualified investments benefiting low-income families in the AA is excellent.

#### Loan-to-Deposit Ratio

The TNB loan-to-deposit (LTD) ratio over the last 18 quarters averages 87% and reflects satisfactory performance. The high average ratio reflects a past history of high LTD influenced by large amounts of wholesale funding via brokered deposits in recent quarters. This occurred prior to a change in corporate strategy prompting restructure of the balance sheet. Given the bank's size, financial condition and AA credit needs, the 18-quarter average ratio shows more than reasonable performance. When compared to other financial institutions of varying asset size within or near the AA, the average LTD ratio is better than most in the custom peer group. TNB's static LTD on September 30, 2010 reduced to 54%. Information for these financial institutions is detailed in the following table:

| <b>Institution</b>                  | <b>Assets (000's)<br/>As of 9/30/10</b> | <b>Average<br/>LTD Ratio*</b> |
|-------------------------------------|---|-------------------------------|
| <b>Town North Bank, N. A</b>        | <b>884,461</b>                          | <b>87%</b>                    |
| <i>National Peer Group</i>          | <i>300,000 to<br/>1,000,000</i>         | <i>80% (Static)</i>           |
| The American National Bank of Texas | 1,881,466                               | 76%                           |
| North Dallas Bank & Trust Co.       | 1,107,366                               | 41%                           |
| Legacy Texas Bank                   | 1,563,715                               | 90%                           |
| Inwood National Bank                | 1,320,019                               | 80%                           |
|                                     |   |                               |

*\*Reported over an 18-quarter period.*

#### Lending in Assessment Area

Based on our review of 2007-2009 HMDA and small business loans, TNB's lending patterns show a majority inside the AA. Analysis shows 63% of the total number of

HMDA loans were within the AA. This group totals \$34.9 million or 83% of the total HMDA dollar volume. Small business loans sampled show 78% of the number and 66% of dollar volume within the AA.

| <b>Lending in AA</b> |                 |       |         |       |       |                  |       |         |       |        |
|----------------------|-----------------|-------|---------|-------|-------|------------------|-------|---------|-------|--------|
| Loan Type            | Number of Loans |       |         |       |       | Dollars of Loans |       |         |       |        |
|                      | Inside          |       | Outside |       | Total | Inside           |       | Outside |       | Total  |
|                      | #               | %     | #       | %     |       | \$               | %     | \$      | %     |        |
| Home Purchase        | 95              | 61.69 | 59      | 38.31 | 154   | 21,574           | 82.90 | 4,451   | 17.10 | 26,025 |
| Home improvement     | 70              | 64.81 | 38      | 35.19 | 108   | 5,079            | 69.86 | 2,191   | 30.14 | 7,270  |
| Refinance            | 23              | 60.53 | 15      | 39.47 | 38    | 8,280            | 92.58 | 664     | 7.41  | 8,944  |
| Total HMDA           | 188             | 62.67 | 112     | 37.33 | 300   | 34,933           | 82.70 | 7,306   | 17.30 | 42,239 |
| Small Business       | 47              | 78.00 | 13      | 22.00 | 60    | 5,610            | 66.00 | 2,832   | 34.00 | 8,441  |
| Total                | 235             | 65.28 | 125     | 34.72 | 360   | 40,543           | 80.00 | 10,138  | 20.00 | 50,680 |

Source: Data reported under HMDA; U.S. Census data and small business loan sample.

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

TNB has reasonable performance regarding lending to borrowers of different incomes and to businesses of different sizes. While residential real estate lending to LMI borrowers could be improved, more weight was given to performance in commercial lending since this is TNB's primary lending focus.

We reviewed all of the residential real estate loans originated and/or purchased by the bank. For the evaluation period, home purchase lending and refinancing to LMI families is poor. Home improvement lending is better, but also considered poor. However, as stated previously, commercial lending is TNB's primary lending focus, thus more weight is given to the commercial lending performance. The following tables illustrate the bank's lending penetration to borrowers with different income levels:

| <b>Borrower Distribution of Residential Real Estate Loans in AA</b> |                  |                      |                  |                      |                  |                      |                  |                      |
|---|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| Borrower Income Level   | Low              |                      | Moderate         |                      | Middle           |                      | Upper            |                      |
| Loan Type   | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans |
| Home Purchase   | 17.64            | 0                    | 15.95            | 0                    | 19.22            | 9.33                 | 47.18            | 90.67                |
| Home Improvement  | 17.64            | 9.33                 | 15.95            | 1.33                 | 19.22            | 10.67                | 47.18            | 66.67                |
| Refinancing   | 17.64            | 0                    | 15.95            | 1.33                 | 19.22            | 1.33                 | 47.18            | 20.00                |

Source: Data reported under HMDA; U.S. Census data.

During 2007-2009, TNB originated a reasonable number of loans to businesses with revenues of less than \$1.0 million within its AA. We reviewed a sample of 60 commercial loans totaling \$8.0 million originating within the AA. Twenty-seven loans

were made to businesses with revenues of less than \$1.0 million, totaling \$5.4 million. The following table illustrates the penetration to businesses of different sizes:

| <b>Borrower Distribution of Loans to Businesses in AA</b> |              |              |                     |       |
|---|--------------|--------------|---------------------|-------|
| Business Revenues (or Sales)                              | ≤\$1,000,000 | >\$1,000,000 | Unavailable/Unknown | Total |
| % of AA Businesses  | 76.59        | 4.30         | 19.11               | 100%  |
| % of Bank Loans in AA by #                                | 41.67        | 46.67        | 11.67               | 100%  |
| % of Bank Loans in AA by \$                               | 48.90        | 43.45        | 7.65                | 100%  |

Source: Dunn and Bradstreet data and loan sample.

Small business loans within the AA have an average size of \$141 thousand with 70% of the number being under \$100 thousand at origination. The table below shows the distribution of loans to small businesses in the AA by size.

| <b>Borrower Distribution of Loans to Businesses by Loan Size in AA</b> |                 |                   |                        |                          |
|--|-----------------|-------------------|------------------------|--------------------------|
| Loan Size (000's)  | Number of Loans | Percent of Number | Dollar Volume of Loans | Percent of Dollar Volume |
| \$0 - \$100,000  | 42              | 70.00             | 1,573                  | 18.60                    |
| \$100,001 - \$250,000  | 8               | 13.33             | 1,424                  | 16.96                    |
| \$250,001 - \$500,000  | 4               | 2.40              | 1,666                  | 19.70                    |
| \$500,001 - \$1,000,000  | 6               | 10.00             | 3,784                  | 44.74                    |
| Over \$1,000,000   | -               | -                 | -                      | -                        |

Source: Loan Sample

## Geographic Distribution of Loans

TNB has a reasonable dispersion of residential real estate loans in its AA. The number of mortgage loans made in the low-income geographies is good when compared to the demographic characteristics of the AA. Likewise, the commercial loan penetration in LMI geographies is also very good as shown in following tables:

| <b>Geographic Distribution of Residential Real Estate Loans in AA</b> |                                |                      |                                |                      |                                |                      |                                |                      |
|---|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| Census Tract Income Level   | Low                            |                      | Moderate                       |                      | Middle                         |                      | Upper                          |                      |
|   | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans |
| Home Purchasing   | 1.01                           | 3.16                 | 11.28                          | 10.53                | 30.82                          | 34.74                | 56.89                          | 51.58                |
| Home Improvement  | 1.01                           | 1.43                 | 11.28                          | 2.86                 | 30.82                          | 35.71                | 56.89                          | 60.00                |
| Refinancing   | 1.01                           | 0                    | 11.28                          | 21.74                | 30.82                          | 26.09                | 56.89                          | 52.17                |

Source: Data reported under HMDA; U.S. Census data.



The sample of loans to small businesses reflects reasonable performance when lending to borrowers located in LMI census tracts within the AA. Penetration of loans to small business located in combined LMI areas was 24%, compared to the 20% composition of the AA. Performance of loans made in low-income census tracts is considered good.

| <b>Geographic Distribution of Loans to Businesses in AA</b> |                    |                 |                    |                 |                    |                 |                    |                 |
|---|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|
| Census Tract Income Level                                   | Low                |                 | Moderate           |                 | Middle             |                 | Upper              |                 |
| Loan Type   | % of AA Businesses | % of # of Loans | % of AA Businesses | % of # of Loans | % of AA Businesses | % of # of Loans | % of AA Businesses | % of # of Loans |
| Business  | 2.12               | 6.52            | 17.61              | 17.39           | 29.91              | 43.48           | 48.93              | 32.61           |

Source: D & B data and loan sample.

### **Responses to Complaints**

TNB did not receive any CRA related complaints during this evaluation period.

### **COMMUNITY DEVELOPMENT TEST**

TNB's performance under the community development test is reasonable. TNB provides an excellent level of community development investments, and loans and services in its AA meet adequate criteria. The level and nature of TNB's community development performance demonstrates active responsiveness to community needs in relation to opportunities within the AA.

The definition of community development includes the following: affordable housing for LMI individuals; community services targeted toward LMI individuals; activities that promote economic development by financing small businesses or farms; or activities that revitalize or stabilize LMI geographies. The following activities are also included in the definition: activities that revitalize or stabilize LMI areas; designated disaster areas; or distressed or underserved non-metropolitan middle-income geographies designated by the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (OCC).

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

TNB's performance in originating community development loans (CDLs) during the current evaluation period is adequate. During the evaluation period, TNB originated five CDLs totaling \$2.9 million. A substantial portion of CDL proceeds were used to fund the purchase and/or rehabilitation of apartment complexes that provide affordable housing. The balance of the CDL disbursements funded construction of affordable one-to-four family housing units within the AA.

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

TNB provided an excellent level of qualified investments with the largest impact coming from an investment in Lone Star New Markets Fund (LSNMF) with a net book value of \$7.2 million. The original LSNMF investment was \$8.0 million with subsequent revaluation downward based on performance of the fund. LSNMF has the stated objective of providing investment funds to capitalize companies located in under-served LMI areas throughout Texas. Total qualified investments during the period include an additional \$176.7 thousand in CRA-related donations. These include cash donations to local organizations that provide community services targeted toward LMI families and individuals. Recipients who benefited include organizations that provide financial, educational, medical, housing, and other services to a wide and diverse range of families and individuals with demonstrated need.

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

TNB bank serves its entire AA through its single location which is in a moderate-income census tract. Products and services are provided using a variety of alternative delivery channels, including Internet and telephone banking. TNB also has a mobile branch that offers limited banking services to residents of Preston Place Retirement Community once a week. In addition, TNB employees at all levels devote their time to community development activities and services, including the following:

- Senior vice presidents either serve on the board of Carrollton/Farmers Branch ISD Educational Foundation, or participate as an advisor. Representatives of the bank have served continuously for several years. It is a general scholarship fund that awards scholarships to local high school seniors. In 2007, 2008, and 2009, the scholarship recipients fell within LMI guidelines for household income. For the 2009-10 school year, 43 graduating seniors from LMI households shared college scholarships from the foundation totaling \$36 thousand.
- A bank officer continues to provide leadership as president and serves as a board member 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. These activities occurred from January 2006 to present.
- A senior vice president serves on the board of directors for the Metrocrest Medical Foundation that supports initiatives to enhance the quality of health care for residents in the AA for all income levels. Involvement has occurred from 2006 to present.

In addition to the activities enumerated above, bank employees at all levels participated in a wide range of other community development services and activities in the AA. The time and effort volunteered in this area consisted mainly of providing financial and technical expertise to a variety of organizations in need. As evidenced by these

community development service activities, the bank provides an adequate level of community services given existing resources, opportunities, and need within the AA.

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

TNB's level of responsiveness in meeting the needs of the AA, through community development activities, community development lending, investments, and services is considered adequate. TNB pursues investments and lending relationships that directly benefit the citizens of the local community and directly impacts LMI households. Management of the bank, through various contributions of time, money, and resources, demonstrates a commitment to meeting the identified needs of its AA and surrounding geographies.

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

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