

PUBLIC DISCLOSURE

December 9, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**TOWN NORTH NATIONAL BANK
CHARTER # 15980**

Farmers Branch, Texas 75381

**Comptroller of the Currency
500 N. Akard, Suite 1600
Dallas, Texas 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** prepared by **The Office of the Comptroller of Currency**, as of December 9, 1996. 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***.

Town North National Bank, Farmers Branch, Texas has a satisfactory level of performance under the Community Reinvestment Act (CRA). The cumulative loan-to-deposit ratio of 75% compares favorably with similar banks. A substantial majority or 93% of loans originated are within the bank's designated assessment area. Direct lending or loans originated by the bank represent 50% of the bank's total loans. The remaining portion of the bank's total loan portfolio comprises purchased real estate mortgages and indirect auto loans. The majority of loans both purchased and directly originated are to individuals who fall into the middle or upper income levels. Geographically, those individuals live in census tracts designated as middle and upper income tracts.

The following table indicates the performance level of Town North National Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>TOWN NORTH NATIONAL BANK</u> 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 received since last examination		

DESCRIPTION OF INSTITUTION

Town North National Bank (Town North) is a commercial bank with assets of \$125 million as of 9/30/96, supporting Dallas, Southeast Denton, and Southwest Collin Counties. This community bank is a subsidiary of CU Bankshares, Inc. (parent), a Texas Bank Holding Company, located in an industrial area of Farmers Branch. Town North has one office with

an automated teller machine and has received approval for a mobile branch. The bank is dedicated to serving the community by offering a variety of financial services and offers many different products to serve the community. Major focus has been on direct and indirect auto and home-improvement loans. The Home Mortgage Disclosure Act (HMDA) report covering the period of 1/1/95 to 10/13/96, reflects a high volume of Home Improvement loans purchased from outside sources. In addition to general consumer loans, loan products include small business, Community Development, Subsidized Housing, and Small Business Administration (SBA) loans.

There are no legal impediments in meeting CRA requirements. Prior performance under CRA dated November 8, 1993 was rated "Satisfactory."

DESCRIPTION OF DALLAS, SOUTHEAST DENTON AND SOUTHWEST COLLIN COUNTY

The designated assessment area has been identified as 490 census tracts within Dallas, Southeast Denton and Southwest Collin County. Numerous communities comprise this area which includes all of Dallas County, 42 census tracts in Collin and 31 census tracts in Denton counties. This assessment area does not appear to arbitrarily exclude low -and moderate income areas. Based on the 1990 census/demographic information the median family income for the designated assessment area is \$37,080 with a population of 2,276,717. Break down of the demographic data reflects 155 upper-income tracts with 277,147 households, 151 middle-income tracts with 324,222 households, 120 moderate-income tracts with 196,340 households, and 56 low-income tracts with 62,089 households. Approximately 36% of the bank's designated assessment area is comprised of census tracts defined as low and moderate income.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

CRA performance is evaluated using small bank performance criteria to include the bank's total loan to deposit ratio, lending activity within the assessment area, volume of lending to individuals at different income levels and businesses of different sizes and geographic distribution of loans. The above factors form the basis of the CRA rating within the individual context consistent with the bank's resources and capabilities. Recent community contacts performed by OCC and FDIC were considered during this evaluation. The bank has met one of the needs identified in the contacts by placing an interest free time deposit with a minority credit union.

Loan to Deposit Ratio

The loan-to-deposit ratio meets the standard for satisfactory performance. The cumulative average loan to deposit ratio for the last eight quarters is 75%. Town North reflects a loan-to-deposit ratio of 88% at 9/30/96. This compares favorably with ten other banks of similar size

doing business within the assessment area. Only two banks had higher loan-to-deposit ratios.

Lending in the Assessment Area

Evaluation of the total loan portfolio, including all purchase mortgage loans, shows a substantial majority of all loans inside the bank's assessment area. HMDA data covering the period between January 1, 1995 and October 15, 1996 reflects 93% of all loans originated and purchased are within the assessment area.

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

Loans to borrowers of different income levels meet the standards for satisfactory performance. The evaluation of this area includes loans originated and purchased. A sample of 45 consumer related loans and HMDA data for last 18 months were used to confirm the bank's lending practices by income levels and a sample of 50 business loans from the same period were used to identify lending to businesses of different sizes. Based on the sample taken, the majority of loans are to middle and upper income families. Commercial loans represent 8.59% of the bank's total loan portfolio and based on the sample above, distribution shows a reasonable lending pattern to businesses of different income levels and sizes.

The table below combines demographic data for the assessment area and shows lending by category within each income level.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS										
	LOW INCOME FAMILIES		MODERATE INCOME FAMILIES		MIDDLE INCOME FAMILIES		UPPER INCOME FAMILIES		TOTAL	
Within Assessment Area	19.56%		17.41%		21.85%		41.19		100%	
	#	%	#	%	#	%	#	%	#	%
Loan Sample*	7	1.36	32	6.21	73	14.17	403	78.25	515	100
LENDING TO BUSINESSES OF DIFFERENT SIZES										
Revenue Ranges	<\$100M		\$100-500M		\$500M - 1MM		>\$1MM		TOTAL	
	#	%	#	%	#	%	#	%	#	%
Commercial	1	2%	23	46%	10	20%	16	32%	50	100

**Based on HMDA and sample taken from loans originated over the last 18 months*

Geographic Distribution of Loans

Geographic distribution is measured by loans directly originated by the bank. The distribution mirrors the type of lending done by the bank. When all loan categories including business related loans are included, dispersion reflects reasonable penetration into various census tracts by income category, the majority of loans made in the middle and upper income tracts. The distribution mirrors the percentage of tracts in the demographic area. The broad assessment area has numerous low and moderate census tracts but the bank is not expected to penetrate all census tracts based on their current location and size. Management monitors geographic distribution by loan applications and originations. An analysis of the bank’s approvals/denials reflects no attempt to limit distribution of credit based on the bank’s market and location. Most of the loans generated are to residents of Dallas and Denton counties. Based on direct lending, 75% of the loans are located in Dallas County. The table below reflects the distribution of loans by income tracts compared to the demographic characteristic of census tracts within the assessment area.

GEOGRAPHIC DISTRIBUTION OF LOANS										
	LOW INCOME TRACTS		MODERATE INCOME TRACTS		MIDDLE INCOME TRACTS		UPPER INCOME TRACTS		TOTAL	
Area Demographic Characteristics	11.6%		24.9%		31.3%		32.2%		100%	
Count	56		120		151		155		482	
	#	%	#	%	#	%	#	%	#	%
HMDA (originated loans)	0		3	5%	24	40%	34	57%	60	100
Consumer & Business Loans from Sample *	2	2%	26	27%	12	13%	55	58%	95	100%

** Based on sample taken for income analysis*

Responses to Complaints

There have been no CRA complaints since the last examination. The bank has a system to handle complaints on a timely manner.

No technical or substantive violations of antidiscrimination laws and regulations were detected during this examination. Management and staff possess a sound level of knowledge

of the provisions of fair lending laws and regulations.