

PUBLIC DISCLOSURE

November 1, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Preston National Bank
Charter Number: 20239
5644 LBJ Freeway
Dallas, Texas 75240**

**Office of the Comptroller of the Currency
Dallas North Field Office
1600 Lincoln Plaza
500 North Akard
Dallas, Texas 75201-3342**

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 **Preston National Bank** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of November 1, 1999. 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:

- ! The bank's quarterly average loan to deposit ratio exceeds the standards for satisfactory performance given its size, financial condition, and assessment area credit needs.
- ! The bank originated, based on our sample, a majority of business and consumer loans within its assessment area.
- ! The bank's lending performance reflects a reasonable distribution of credit to businesses of different sizes and borrowers of different income levels.

The following table shows the performance level of Preston National Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	PRESTON NATIONAL BANK 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	PNB did not receive any complaints concerning its CRA performance.		

Scope of the Examination

This evaluation of Preston National Bank's (PNB) CRA performance covers the period from February 13, 1997, through November 1, 1999. The evaluation includes an analysis of PNB's lending activities within its designated assessment area. The bank was rated **Satisfactory** in the previous CRA public disclosure dated February 13, 1997.

Description of Institution

PNB is a \$35 million institution with its main office at the intersection of LBJ Freeway and Montfort Road in north Dallas, Texas. The bank offers extended lobby hours on Fridays including a drive-up facility with extended weekday and Saturday hours.

The bank serves the cities of Addison, Carrollton, Dallas, Farmers Branch, Plano, and Richardson, Texas. PNB offers a wide range of credit products to its community including commercial, mortgage, consumer, and construction loans. However, management has changed the bank's primary focus from mortgage lending to small business and commercial lending.

PNB's main competition stems from other independent financial institutions in the Dallas metroplex. These competitors are the following: Abrams Centre National Bank, Eagle National Bank, Inwood National Bank, North Dallas Bank & Trust Co., Provident Bank, and United Texas Bank. Besides these institutions, management feels that the larger banks provide added competition through retail and consumer lines.

Despite the competition, PNB does not have any financial or legal obstacles affecting its ability to meet its community's credit needs. The following table portrays the principle loan mix of PNB:

TYPES OF DOMESTIC LOANS OUTSTANDING SEPTEMBER 30, 1999 (\$000's)		
<i>TYPE OF LOANS</i>	<i>AMOUNT</i>	<i>PERCENTAGE</i>
Commercial Loans	\$9,579	44%
1-4 Family Residential Loans	\$4,360	20%
Installment	\$4,004	18%
Construction & Land Development	\$2,176	10%
Secured by Real Estate	\$1,817	8%
Other Loans (obligations)	\$88	<1%
TOTAL	\$22,024	100%

Description of Assessment Area

PNB has defined its assessment area as the cities of Addison, Carrollton, Dallas, Farmers Branch, Plano, and Richardson, Texas within the Dallas MSA #1920. The assessment area consists of 330 census tracts (CT). The assessment area meets regulatory guidelines and does not arbitrarily exclude any low- or moderate-income areas. The following table reflects the demographics for the assessment area.

ASSESSMENT AREA DEMOGRAPHICS			
<i>Designation</i>	<i># Census Tracts</i>	<i>% of Total Census Tracts</i>	<i>% of Households Residing in the Census Tracts</i>
Low	55	17%	11%
Moderate	96	29%	29%
Middle	71	21%	27%

ASSESSMENT AREA DEMOGRAPHICS			
Upper	105	32%	33%
NA	3	1%	0%
TOTAL	330	100%	100%

More than 1.4 million residents populate the assessment area. Based on the updated HUD-1999 Census information, the median family income for the Dallas MSA is \$58,200. The median housing value for the assessment area is \$96,182, with the median age of housing stock at 20 years. The total occupied housing units for the assessment area is at 88%, with owner-occupied housing at 45% and rental-occupied housing at 43%. Vacant housing units in the assessment area are at 12%.

Unemployment rates have remained low and steady over the past two years at approximately 3%. The largest industries in the assessment area are retail trade and services. The largest employers in the North Dallas area are Frito Lay, J. C. Penney, and Electronic Data Systems.

We determined the credit needs of the community through discussions with PNB management. Management indicated that the primary credit needs are commercial loans especially to small businesses, consumer loans, and real estate loans for both commercial and residential purposes.

Conclusions with Respect to Performance Criteria:

This review covers home mortgage, business, and consumer loans made January 1998 to November 1, 1999.

Loan-to-Deposit Ratio

Given the bank's size, financial condition, and assessment area credit needs, PNB exceeds the standards for satisfactory performance. PNB's quarterly average loan-to-deposit (LTD) ratio for the past 10 quarters is 87%.

We compared PNB's quarterly average LTD ratio to its local peer group, which consists of state- and national-chartered banks in Collin and Dallas Counties, with total assets of \$50 million or less. The local peer group's quarterly average LTD ratio is 61%, which is lower than PNB's 10-quarter average. In addition, we compared PNB's quarterly average LTD with banks that are similarly situated. The similarly situated banks' LTD is 71%, which is also lower than PNB's average LTD.

Lending in Assessment Area

Based on a sample of 20 commercial loans and 20 consumer loans, PNB originated a majority of those types of loans within its assessment area.

ASSESSMENT AREA LENDING					
Loan Type	Total Sampled	# of Loans in AA	% of # Loans in AA	Amount (\$000s)	% of Amount
Commercial Loans	20	15	74%	\$2,116	71%
Consumer Loans	20	14	70%	\$136	67%
Total	40	29	73%	\$2,252	71%

In addition, we reviewed PNB's home loan activity reports for 1998 to 1999. Based on these reports, PNB originated 151 loans between January 1998 and November 1, 1999. Of those loans originated, 56 or 37% were within the assessment area. The fact that PNB is in a commercial area and its niche is in small business lending mitigates the low percentage of mortgage loans.

Lending to Businesses of Different Sizes

PNB's lending to businesses of different sizes is adequate. Small business loans are defined as loans less than \$1.0 million and small farm loans are defined as loans of less than \$500 thousand. As of June 30, 1999, PNB had 112 loans outstanding to small businesses and small farms.

Based on our sample of business loans that originated during this review period, eight or 53% of the 15 loans originated within the assessment area were to small businesses and to small farms.

Lending to Borrowers of Different Incomes

Our review of PNB's home mortgage and consumer loans revealed reasonable lending patterns to families of different income levels. PNB originates home mortgage loans with an emphasis in FHA and VA lending.

Of the loans made within the assessment area, 57% were FHA and VA refinanced loans. These loans are processed through a streamlined method, which does not require the borrower to provide income information. As such, an analysis of the distribution of home loans to borrowers of different incomes is not meaningful. However, we would note that PNB is offering a loan product that is meeting its community needs.

Distribution of Loans to Borrowers of Different Incomes			
Income Classification	% Families	Home Mortgage	Consumer

Distribution of Loans to Borrowers of Different Incomes					
		#	%	#	%
Low	22%	0	0%	6	43%
Moderate	18%	4	7%	6	43%
Middle	20%	4	7%	0	0%
Upper	40%	16	29%	2	14%
NA	0%	32	57%	0	0%
TOTAL	100%	56	100%	14	100%

Geographic Distribution of Loans

PNB has a reasonable distribution of loans in the assessment area. This distribution is reasonable considering competitive factors and the size and location of the bank. The following data shows the majority of lending penetration exists within the middle- and upper-income census tracts.

Geographic Distribution of Loans Sampled						
	Commercial		Home Mortgage		Consumer	
	#	%	#	%	#	%
Census Tract						
Low-Income	0	0%	0	0%	0	0%
Moderate-Income	3	20%	2	3%	1	7%
Middle-Income	7	47%	21	37%	0	0%
Upper-Income	5	33%	34	60%	12	86%
NA	0	0%	0	0%	1	7%
Total	15	100%	57	100%	14	100%

Management has stated that the lack of penetration to low-income census tracts is because these areas are not geographically accessible to the bank. In addition, the majority of loans the bank originates come from commercial business sources and referrals. The low-income census tracts are mostly residential with no or little commercial businesses within the area. As stated earlier, the bank's main focus is commercial lending.

Compliance with Anti-discrimination Laws

A fair lending review performed with this CRA examination revealed satisfactory compliance with fair lending regulations. We found no evidence of illegal disparate treatment of applicants in our review of loan files and the bank's credit underwriting. As such, we noted no practices intended to discourage or impede potential borrowers from applying for credit.

Responses to Complaints

During this evaluation period, PNB has not received any consumer complaints that relate to the CRA performance.