



PUBLIC DISCLOSURE

May 11, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank of Desoto, National Association
Charter Number 20415

2011 N. Hampton Road
Desoto, TX 75115

Office of the Comptroller of the Currency
Dallas Field Office
225 E. John Carpenter Frwy., Suite 900
Irving, TX 75062

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 major factors that support this rating include:

- The bank's loan-to-deposit (LTD) ratio is reasonable.
- A majority of loan originations and purchases are within the bank's assessment area (AA).
- The distribution of residential loans to borrowers of different income levels exhibits a reasonable penetration. The distribution of loans to businesses of different sizes and to consumers of different income levels reflects an excellent penetration.
- The bank's geographic distribution of residential loans to low- and moderate-income (LMI) census tracts reflects reasonable dispersion. The bank's geographic distribution of business and consumer loans in LMI census tracts reflects excellent dispersion.

SCOPE OF EXAMINATION

An onsite examination of the bank was conducted to assess its performance under the CRA small bank performance criteria. This performance evaluation starts from the date of the bank's previous CRA examination, covering the period from August 10, 2009 to May 11, 2015.

We identified consumer loans, commercial and commercial real estate loans (business loans), and residential real estate loans (HMDA loans) as the bank's primary loan products. The loan data information used for the performance evaluation covered the period from January 1, 2013 through December 31, 2014. Consumer loans accounted for 86 percent of the number of primary loan products originated during the evaluation period and 70 percent of the dollar volume. To evaluate the bank's performance, we used a random sample of business and consumer loans as well as the population of HMDA loans that were originated during this timeframe. The bank purchased no loans during the evaluation period. We reviewed a random sample of 28 business loans and 30 consumer loans. We relied on HMDA data for our residential loan review. To ensure the data was reliable, we reviewed randomly selected HMDA loans originated during the review period. This evaluation is based on accurate data.

In our evaluation of the distribution of loans, we utilized the demographics and geographies related to the 2010 Census as it applies to the years 2013 and 2014.

We did not consider the activities of affiliates in this evaluation.

DESCRIPTION OF INSTITUTION

Bank of Desoto, National Association (BOD or bank) is an independent, intrastate bank that was granted a national bank charter in 1986. It is located 15 miles south of downtown Dallas. The previous CRA evaluation, dated August 10, 2009, assigned a “Satisfactory” rating.

The bank is owned 100 percent by D Bancorp, Inc., a single bank holding company. There are no legal or financial impediments to the bank’s ability to meet the credit needs of its AAs.

Bank of Desoto does not operate any branch offices and has one on-site ATM. The bank did not open or close any branches during the evaluation period and offers a full range of deposit and loan products and services with a focus on consumer, commercial, and residential lending.

As of March 31, 2015, net loans were 54 percent of the bank’s total assets of \$195 million. The following table reflects the bank’s loan portfolio summary.

Bank of Desoto, National Association Loan Portfolio Summary		
Loan Category	Dollar Volume (in thousands)	Percentage
Commercial and Commercial Real Estate	46,713	45%
Consumer	29,256	28%
Residential	23,194	22%
Construction and Other	5,343	5%
Total Loans	104,506	100%

Source: March 31, 2015 Report of Condition.

In addition to its main office, BOD has an attached mini-bank and drive-up facilities. Both provide extended banking hours to meet customer needs including weekday evenings and Saturday mornings. In the alcove to the mini-bank facility is the bank’s ATM that has 24-hour customer access and is part of the *Pulse* ATM network.

Banking programs and hours allow the bank to deliver needed banking and credit services to LMI areas and customers as well as small business owners across the AA. The bank is located in a low-income census tract in Dallas County. The AA’s other low-income census tract is immediately contiguous to the bank’s tract. The AA’s four moderate-income tracts are all within a three-mile radius of the bank. The bank has employees who can speak Spanish in order to serve the AA’s growing Hispanic customer base.

DESCRIPTION OF ASSESSMENT AREA(S)

Bank of Desoto has one AA consisting of 35 census tracts in southwestern Dallas County and 16 census tracts in northwestern Ellis County. All the tracts are contiguous and located in the Dallas-Plano-Irving, TX Metropolitan Division (#19124). There are two low-income geographies and four moderate-income geographies in the AA. The AA meets the requirements of the CRA regulation, does not arbitrarily exclude low- and moderate- income geographies, and includes only those portions of political subdivisions that the bank can reasonably be expected to serve.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	66,068
Number of Households	87,603
Geographies	
Number of Census Tracts	51
% Low-Income Census Tracts	3.92%
% Moderate-Income Census Tracts	7.84%
% Middle-Income Census Tracts	62.75%
% Upper-Income Census Tracts	25.49%
Median Family Income (MFI)	
2010 MFI for AA	\$70,912
2010 HUD-Adjusted MFI	\$69,100
Economic Indicators	
Unemployment Rate	
Ellis County	3.8%
Dallas County	4.2%
2010 Median Housing Value	\$132,509
% of Households Below Poverty Level	8.85%

The 3.8 percent unemployment rate for Ellis County compares favorably to the unemployment rates for the State of Texas and United States that are 4.2 percent and 5.5 percent, respectively. The Dallas County unemployment rate of 4.2 percent matches the Texas rate and remains well below that of the United States.

The city of Desoto and the surrounding communities within the assessment area are considered bedroom communities to Dallas, with some light manufacturing. Area economic conditions are considered good, and unemployment is at relatively low levels. The major employment sectors within the assessment area are retail trade, industrial

and service industries. The largest employers within the assessment area are the various local independent school districts and the *McGraw-Hill* warehouse.

We contacted one member of the local community representing the Desoto Chamber of Commerce. The contact identified small business and residential home refinancing as primary credit needs of the community. The contact also stated that although local financial institutions are providing services and credit needs, those needs continue to exist within the AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank’s performance under the Lending Test is rated “Satisfactory”.

Loan-to-Deposit Ratio

The bank’s LTD ratio is reasonable given the bank’s size, location, local competition, and the credit needs of the AA. This determination is based on the quarterly average LTD ratio of 68.15 percent from September 30, 2009 through March 31, 2015. During this evaluation period, BOD’s LTD ratio ranged from a low of 58.7 percent to a high of 75.8 percent.

Management considers the banks shown in the following table to be similarly situated institutions (SSIs). All of the SSIs actively offer similar loan products and have branch locations in the AA. The bank’s focus on originating consumer loans contributes to its comparatively lower LTD ratio. Consumer loans are typically for smaller amounts than business and residential loans.

The quarterly average LTD ratio for each similarly situated bank is listed in the following table. Please note that no ranking is intended or implied.

Loan-to-Deposit Ratios		
Financial Institutions	Total Assets \$ (000’s) (As of 3/31/2015)	Average Loan-to-Deposit Ratio
Bank of Desoto, National Association	\$195,108	68.15%
Vintage Bank	\$174,289	80.20%
Ennis State Bank	\$148,857	89.66%
Citizens National Bank of Texas	\$661,299	91.25%

Source: Institution Reports of Condition from September 30, 2009 to March 31, 2015.

Lending in Assessment Area

A majority of the number and dollar amount of BOD’s loans were originated or purchased inside its AA. As depicted in Table 1 below (\$000s omitted), 56 percent of the number and 50 percent of the dollar amount of loans were originated or purchased inside the AAs.

In our analysis, we included all 1-4 family real estate loans BOD originated or purchased from January 1, 2013 through December 31, 2014 that are reported under the requirements of the HMDA. We sampled 28 business loans and 30 consumer loans originated or purchased during the same period.

Table 1 - Lending in AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	18	40.00	27	60.00	45	2,196	42.17	3,012	57.83	5,208
Home Improvement	1	25.00	3	75.00	4	75	40.32	111	59.68	186
Home Refinance	8	66.67	4	33.33	12	689	69.04	309	30.96	998
Business	20	71.43	8	28.57	28	547	66.14	280	33.86	827
Consumer	20	66.67	10	33.33	30	266	72.09	103	27.91	369
Total	67	56.30	52	43.70	119	3,773	49.72	3,815	50.28	7,588

Source: Data reported under HMDA; Sample of loans.

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

Bank of Desoto's distribution of residential loans to LMI borrowers is reasonable. Its distribution of loans to businesses of different sizes exhibits an excellent penetration. The bank's distribution of consumer loans to LMI borrowers is excellent.

In our analysis, we included all 1-4 family real estate loans BOD originated or purchased in 2013 and 2014 that are reported under the requirements of the HMDA, as well as 20 business loans and 20 consumer loans originated or purchased during the same period.

Home Mortgage Loans

As detailed in Table 2 below, the bank's 1-4 family real estate lending (HMDA reportable loans) lagged the percentage of families in the LMI income levels in each category in the AA except one. The percent of home refinance loans to low-income borrowers exceeded the percent of families in that category. Although the percentage of home purchase loans to both the low-income and moderate-income borrowers is below the demographic, it is still adequate given the number of affordable homes available and the down payment requirements of conventional home purchase programs. Thus, the bank's overall distribution of residential loans to LMI borrowers is comparatively low but still considered reasonable.

Table 2 - Borrower Distribution of Residential Real Estate Loans in AA								
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	18.39	11.11	17.87	5.56	22.58	38.89	41.16	44.44
Home Improvement	18.39	0.00	17.87	0.00	22.58	100.00	41.16	0.00
Home Refinance	18.39	25.00	17.87	12.50	22.58	37.50	41.16	25.00

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

Business Loans

The distribution of loans to businesses of different sizes reflects an excellent penetration. As illustrated in Table 2A below, the percentage of the number of loans to small businesses (95 percent) exceeds the percentage of small businesses in the AA (75 percent). A small business is defined as a business with revenues of \$1 million or less. A similar positive comparison exists for the dollar volume of loans.

Table 2A - Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	75.43	1.97	22.60	100%
% of Bank Loans in AA by #	95.00	5.00	0.00	100%
% of Bank Loans in AA by \$	96.35	3.65	0.00	100%

Source: Loan sample; D & B data.

As detailed in Table 2C below, 100 percent of the number of loans to businesses originated by BOD were in amounts of \$100,000 or less. Loan size often loosely correlates to the size of the business. This is indicative of a bank servicing the credit needs of small businesses.

Table 2C - Borrower Distribution of Loans to Businesses by Loan Size in AA				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	20	100.00	\$547	100.00
\$100,001 - \$250,000				
\$250,001 - \$500,000				
\$500,001 - \$1,000,000				
Over \$1,000,000				

Source: Loan sample.

Consumer Loans

The distribution of consumer loans reflects an excellent penetration. As noted in Table 2B below, the bank’s consumer lending to both low-income and moderate-income borrowers exceeds the percentage of households in those income levels.

Table 2B - Borrower Distribution of Consumer Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	19.92	30.00	16.04	35.00	20.19	15.00	43.85	20.00

Source: Loan sample; U.S. Census data.

Geographic Distribution of Loans

The geographic distribution of residential loans within the AA is reasonable. Bank of Desoto’s geographic distribution of business and consumer loans to LMI census tracts reflects excellent dispersion and demonstrates a pattern indicative of an institution seeking to service the credit needs of its AA.

Home Mortgage Loans

The bank’s geographic distribution of residential loans reflects reasonable dispersion. In Table 3 for the AA below, the percentage of the home refinance loans originated in the moderate-income census tracts exceeds the percent of owner occupied housing. The level of the bank’s home purchase loans in the same tract income category is comparable to the demographic. Bank of Desoto did not originate any home improvement loans in either the low- or moderate-income geographies. Although the bank made no residential loans in the low-income census tracts, less than one percent of the AA’s owner-occupied housing is located in those areas.

Table 3 - Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% 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 Purchase	0.61	0.00	6.08	5.56	60.90	72.22	32.41	22.22
Home Improvement	0.61	0.00	6.08	0.00	60.90	100.00	32.41	0.00
Home Refinance	0.61	0.00	6.08	12.50	60.90	62.50	32.41	25.00

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

Business Loans

Table 3A below illustrates the extent to which the bank’s lending in the low-income census tracts (5.0 percent of business loans) surpasses the percent of businesses located in those geographies (4.3 percent). The volume of BOD’s business loans in the moderate-income census tracts (10.0 percent) also compares favorably to the percent of businesses in those geographic areas (6.6 percent). This is an excellent distribution of business loans to the LMI geographies in the AA.

Table 3A - Geographic Distribution of Loans to Businesses in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Businesses	4.31	5.00	6.59	10.00	57.67	55.00	31.43	30.00

Source: Loan sample; D & B data.

Consumer Loans

Table 3B below illustrates the extent to which the bank’s consumer lending in the low-income census tracts (10.0 percent of consumer loans) surpasses the percent of households located in those geographies (4.6 percent). The volume of the bank’s consumer loans in the moderate-income census tracts (10.0 percent) also compares favorably to the percent of households in those geographic areas (8.3 percent). This is an excellent distribution of consumer loans to the LMI geographies in the AA.

Table 3B - Geographic Distribution of Consumer Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	4.58	10.00	8.28	10.00	60.13	55.00	27.01	25.00

Source: Loan sample; U.S. Census data.

Responses to Complaints

Bank of Desoto has not received any complaints regarding its CRA performance during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance.

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