



PUBLIC DISCLOSURE

October 30, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Preston National Bank
Charter Number 20239

5644 LBJ Freeway
Dallas, TX 75240

Office of the Comptroller of the Currency
Dallas Field Office
225 East John Carpenter Freeway
Suite 500
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

Preston National Bank (Preston NB or bank) has a Satisfactory record of meeting its community credit needs. Major factors that support this rating include:

- Preston NB's average loan-to-deposit ratio is more than reasonable.
- A majority of loan originations and purchases are within the bank's assessment area.
- The distribution of loans to businesses of different sizes reflects excellent penetration. The distribution of consumer loans to borrowers of different income levels exhibits a reasonable distribution.
- Lending to geographies of different income levels within the assessment area reflects a reasonable distribution.

SCOPE OF EXAMINATION

This Performance Evaluation (PE) assesses the bank's performance under the Lending Test. The evaluation period ranges from May 18, 2009, the date of the prior PE, through October 30, 2014, the date of the current evaluation. However, the Lending Test concentrated on activity from January 1, 2012 to December 31, 2013. In evaluating the bank's lending performance, we selected the primary lending products that include commercial, including commercial real estate, and consumer loans, with an emphasis on small business lending. We placed the most weight for rating the borrower distribution of loans on small business lending considering the bank's strategic focus is business lending.

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 2012 and 2013.

Given this evaluation is based on bank provided Community Reinvestment Act (CRA) data, we tested a sample of consumer and business loans to verify the accuracy and reliability of data used. There were no significant exceptions noted.

DESCRIPTION OF INSTITUTION

Preston NB is a federally chartered, community bank with assets totaling approximately \$60 million as of June 30, 2014. The bank is 93 percent owned by Ms. Bonnie Harvey and there are no affiliates or operating subsidiaries that are active in CRA related activities. The bank's niche in the loan market is lending to residential real estate investors.

Preston NB has a single banking facility located at the intersection of LBJ Freeway and Montfort Road in Dallas, Texas. The bank primarily services the cities of Addison,

Carrollton, Dallas, Farmers Branch, Plano, and Richardson, Texas. The bank's principal competition stems from local independent banking institutions. These competitors include Inwood National Bank, Town North Bank, National Association, and T-Bank, National Association. Larger multi-national branches add additional competition. Preston NB focuses on making small business and commercial loans. In addition, it offers several other credit products to the community including commercial, mortgage, consumer, and construction loans. Preston NB does not have any financial or legal obstacles affecting its ability to meet its community's credit needs. The bank was rated "Satisfactory" in the prior CRA Public Evaluation dated May 18, 2009.

The bank's loan portfolio is segmented as follows:

Loan Category	\$ (000)	%
Residential Real Estate	31,145	53.28
Commercial Real Estate	16,389	28.04
Commercial Loans	9,186	15.72
Consumer Loans	1,733	2.96
Total	58,453	100.00

Source: June 30, 2014 Report of Condition

DESCRIPTION OF ASSESSMENT AREA

The Dallas-Fort Worth-Arlington (DFW Metroplex) Combined Statistical Area consists of 12 counties and has a population of approximately 6.7 million people. The DFW Metroplex has one of the highest concentrations of corporate headquarters in the United States—the area is home to 18 fortune 500 companies. Unemployment rates for Dallas most notably in 2014 are below the national unemployment rate. Employment in the area grew 3.4 percent in June 2014 due to the rapidly expanding economy. The professional and business services sectors recorded the fastest pace growth year-to-date through job creation in construction, mining, leisure, and hospitality.

Preston NB's only assessment area (AA) is within the Dallas-Plano-Irving metropolitan division (MD). It includes the Dallas area with Interstate 75 as the eastern boundary and Interstate 35 as the western boundary. The AA includes the cities of Addison, Carrollton, Dallas, Farmers Branch, Plano, and Richardson, Texas. The AA meets regulatory guidelines and does not arbitrarily exclude any low- or moderate-income areas.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	369,660
Number of Households	600,710
<i>Geographies</i>	
Number of Census Tracts	371
Low-Income Census Tracts	55
Moderate-Income Census Tracts	81
Middle-Income Census Tracts	87
Upper-Income Census Tracts	146
N/A	2
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$65,217
2014 HUD-Adjusted MFI	\$69,000
<i>Employment Indicators</i>	
Unemployment Rate	4.81%
2010 Median Housing Value	\$205,767
% of Households Below Poverty Level	12.52%

Data Source: 2010 US Census and HUD Updated Income Data

The AA consists of 371 census tracts (CTs). As noted in the above demographic table, the AA includes 15 percent low-income and 22 percent moderate-income geographies.

Per the 2010 US Census, the total population of the AA is 1,577,349. The population of the AA has increased more than 50 percent since the 2000 Census. There is a total of 600,710 households in the AA, 14 percent are low-income and 21 percent are moderate income households. The AA's unemployment rate at 4.8 percent is less than the national average of 5.8 percent. The largest industries in the AA remain retail and services.

We determined the community credit needs in the assessment area by reviewing CRA Performance Evaluations of other banks operating in the same assessment area, discussions with management, and input from community contacts. We determined that the most pressing credit needs in the AA are small and medium-sized business loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Preston NB's performance under the Lending Test is "**Satisfactory**". In our analysis, we utilized a sample of business and consumer loans.

The PE assesses the bank's performance based on the following lending test criteria: the loan-to-deposit ratio, lending in the AA, geographic distribution of loans, lending to borrowers of different income levels and to businesses of different sizes, and responses to consumer complaints.

Loan-to-Deposit Ratio

Preston NB's average loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, AA credit needs, and area competition. This determination is based on the quarterly average LTD ratio of 107 percent from March 31, 2009 through June 30, 2014.

Management considers the banks shown in the following table to be similarly situated institutions (SSI). With the exception of Inwood National Bank, all are community banks less than \$1 billion in assets that actively offer similar loan products and have branch locations in the AA.

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

Institution	Assets as of 6/30/2014	Quarterly Average LTD Ratio
Preston National Bank	\$59,942	107.04%
Pavilion Bank, NA	\$83,258	80.11%
Synergy Bank, NA	\$122,063	78.90%
Texas Brand Bank	\$130,445	84.55%
T-Bank, NA	\$159,045	103.45%
Town North Bank, NA	\$592,681	64.69%
Inwood National Bank	\$1,658,817	72.75%

Data Source: Institution Reports of Condition from March 31, 2009 to June 30, 2014.

Lending in Assessment Area

A majority of the loans sampled were originated or purchased within the bank's AA. In evaluating the bank's lending performance, we reviewed a random sample of 22 business loans and 23 consumer loans. Because small business lending continues to be the bank's primary lending focus, the bank's small business lending performance was given greater weight than that of its consumer lending. The table below reflects the distribution of business and consumer loans originated or purchased inside and outside of the AA.

Table 1 - Lending in Dallas MD AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	18	81.82	4	18.18	22	3,338	79.91	839	20.09	4,177
Consumer	17	73.91	6	27.27	23	2,712	92.28	226	7.72	2,938
Totals	35	77.78	10	22.22	45	6,050	85.03	1,065	14.97	7,115

Data Source: Bank loan data

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

Preston NB’s distribution of loans to businesses of different sizes reflects excellent penetration. The distribution of consumer loans to borrowers of different incomes levels exhibits reasonable penetration.

The bank’s distribution of loans to small businesses exceeds the comparator. As illustrated in Table 2A for the AA below, the percentage of loans by number of small businesses (90 percent) is excellent compared to the percentage of small businesses in the AA (70 percent). A small business is defined as a business with gross annual revenues of \$1 million or less.

Table 2A - Borrower Distribution of Loans to Businesses in Dallas MD AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	69.56	4.75	25.68	100%
% of Bank Loans in AA by #	90.00	10.00	0	100%
% of Bank Loans in AA by \$	86.24	13.66	0	100%

Data Source: Data collected by bank; Dun & Bradstreet Data.

The distribution of consumer loans to borrowers of different income levels is reasonable. Consumer lending is one of the bank’s smallest portfolios of loans and these loans are typically granted as a courtesy to existing commercial customers. As such, the percentage of the number of loans to low-income borrowers is less than the percentage of low-income households in the assessment area. Nonetheless, the percentage of the number of loans to moderate-income borrowers slightly exceeds the percentage of moderate-income households in the assessment areas. Table 2B below illustrates the bank’s distribution of consumer loans as related to the percentage of households that fall within each of those income levels.

Table 2B - Borrower Distribution of Consumer Loans in Dallas MD 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	24.45	10.00	17.24	20.00	16.82	20.00	41.50	50.00

Data Source: Data collected by bank; 2010 US Census Data

Geographic Distribution of Loans

The distribution of business loans based on geography is reasonable. Preston NB's geographic distribution of business loans reflects a reasonable dispersion. As detailed in Table 3A for the AA below, the percentage of the bank's loans to businesses in both low- and moderate-income CTs approximates the percentage of businesses located in those geographies.

Table 3A - Geographic Distribution of Loans to Businesses in Dallas MD 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	8.59	10.00	16.59	20.00	23.01	35.00	51.41	35.00

Data Source: Data collected by bank; 2010 US Census Data

The distribution of consumer loans based on geography is reasonable. Preston NB's geographic distribution of consumer loans reflects a reasonable dispersion. As detailed in Table 3B for the AA below, the percentage of the bank's loans to consumers residing in both low- and moderate-income geographies is comparable to the percentage distribution of households located within those geography income levels.

Table 3B - Geographic Distribution of Consumer Loans in Dallas MD 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	13.92	10.00	21.23	20.00	25.06	30.00	39.79	40.00

Data Source: Data collected by bank; 2010 US Census Data

Responses to Complaints

The bank did not receive 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.