

# **PUBLIC DISCLOSURE**

**June 6, 2005**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Millennium State Bank of Texas  
Certificate Number: 57667**

**11950 Webb Chapel Road  
Dallas, Texas 75234**

**Federal Deposit Insurance Corporation**

**Division of Supervision and Consumer Protection  
1910 Pacific Avenue, 19th Floor  
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.

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## 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 **Millennium State Bank of Texas** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **June 6, 2005**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

## INSTITUTION RATING

***INSTITUTION'S CRA RATING:*** This institution is rated **Satisfactory**.

This was the first CRA performance evaluation for this de novo bank. Pursuant to the Community Reinvestment Act, small bank performance factors were reviewed to evaluate this institution. Those factors are lending to borrowers of different incomes and businesses of different sizes, geographic distribution of loans, lending inside the assessment area, loan-to-deposit-ratio, and response to CRA-related complaints. Since there were no consumer complaints or evidence of unfair lending practices, these factors were not considered. Management did not request a review of investments and services in consideration of an outstanding rating.

This evaluation was primarily based on the bank's commercial lending activities. In this evaluation, each of the factors reviewed supported the overall rating. A synopsis of the bank's performance for each performance factor is noted below and detailed within the body of this evaluation.

- The average loan-to-deposit ratio reflected reasonable performance compared to similarly situated banks offering comparable loan products.
- Extensions of credit to businesses of different sizes were adequately dispersed compared to area demographics and the bank's lending focus.
- Lending inside the assessment area demonstrated satisfactory performance. The bank extended a majority of its loans by number and dollar volume within the assessment area.
- The geographic distribution of loans was satisfactory and consistent with the distribution of census tract income levels and businesses in the assessment area.

## DESCRIPTION OF INSTITUTION

Millennium State Bank of Texas (MSB) opened for business on August 20, 2003. MSB is a niche bank specializing in Small Business Administration (SBA) lending and was recently designated a preferred lender participant by the SBA. As a small business lender, the bank focuses on commercial loans to businesses with assets under \$1 million. Ownership is distributed among approximately 103 shareholders. MSB operates one full service office and offers a variety of loan and deposit products. Extended services include an onsite cash-dispensing ATM, Visa Check Card, ATM Card, Internet Banking, and Telephone Banking. Banking hours are appropriate for the area served. Lobby hours are from 9:00 a.m. until 5:00 p.m. Monday through Friday. The motor bank is open from 8:30 a.m. until 6:00 p.m. Monday through Friday, with Saturday hours from 9:00 a.m. until noon. A loan production office located in Houston, Texas, also places an emphasis on originating SBA loans.

MSB operates in a very competitive and diverse market. Five languages are spoken among the bank's 20 employees; including Vietnamese, Korean, Spanish, Farsi, and English. This allows the bank to efficiently serve all segments of its diversified assessment area.

The March 31, 2005, Report of Condition and Income submitted to the FDIC showed that the loan portfolio comprised 73 percent of total assets. Commercial and industrial and commercial real estate loans comprised 88 percent of the portfolio. There were no legal, financial, or regulatory impediments preventing the bank from meeting the credit needs of the communities served. Tables 1 and 2 illustrate the composition of the bank's assets and the distribution of the loan portfolio.

<b>Table 1 – Asset Composition as of 03/31/05</b>		
<b>Asset</b>	<b>Dollar Amount (000s)</b>	<b>Percent of Total Assets (%)</b>
Cash and due from depository institutions	2,850	4.8
Securities and Federal funds sold	9,170	15.5
Net loans and leases	42,949	72.7
Bank premises and fixed assets	3,334	5.6
Other Assets	811	1.4
<b>Total Assets</b>	<b>59,114</b>	<b>100.0</b>

<b>Table 2 – Loan Distribution as of 03/31/05</b>		
<b>Loan Type</b>	<b>Dollar Amount (000s)</b>	<b>Percent of Total Loans (000s)</b>
Construction and Land Development	2,809	6.4
1-4 Family Residential	986	2.3
Commercial	25,152	57.7
<b>Total Real Estate Loans</b>	<b>28,947</b>	<b>66.4</b>
Commercial & Industrial	13,314	30.5
Consumer	1,312	3.0
Other	22	0.1
<b>Gross Loans</b>	<b>43,595</b>	<b>100.0</b>

## **DESCRIPTION OF ASSESSMENT AREA**

Millennium State Bank of Texas designated all of Dallas and Collin counties as its assessment area. These counties represent portions of the Dallas-Plano-Irving, Texas Metropolitan Division and encompass 572 census tracts; of which 60 (10%) and 177 (31%) are low- and moderate-income geographies, respectively. Local economies are primarily driven by health care, education, telecom, government, transportation, construction, manufacturing, wholesale and retail trade, and financial entities.

Business demographic data obtained from CRA Wiz, a commercial provider of economic and demographic data, revealed approximately 221,086 businesses in the assessment area, with service and retail establishments accounting for about 57 percent. Total businesses are predominantly small, with 58 percent employing less than 5 people and 73 percent employing less than 20 people. Approximately 62 percent of the businesses reported annual revenues less than \$1 million. Baylor Health Care System, University of North Texas, Parkland Health & Hospital System, Electronic Data Systems Corporation, and Texas Instruments are the top five employers. Additionally, 5 percent of the businesses are located in low-income areas and 27 percent are in moderate-income geographies.

Information obtained from Economy.com showed that the metro area has added jobs for several consecutive quarters, but at a slow pace. The unemployment rate showed a decline from 7.1 percent in 2003 to 6.0 percent in 2004. Job growth was considered below par in nearly all industries. Old line transportation and distribution industries remain the most compelling upside risks due to the metro area's distinction as a key distribution center for the entire Southwest and as a hub for transportation. Union Pacific's ongoing project to build a 300 acre transportation facility to manage significant growth in rail traffic is expected to further bolster the area's distribution credentials. There are signs that the telecom industry has emerged from its slump, but off-shoring and productivity gains will most likely result in few new jobs for the Dallas area. The real estate market remains largely in balance, with sales and building permits displaying equanimity.

In summary, the worst has passed for the Dallas economy and it is anticipated that growth will accelerate in the metro area through 2005. The transportation and financial industries are expected to drive short term growth. High exposure to the struggling telecom and travel industries is expected to remain a liability. Although the metro area has experienced economic woes, above average performance is predicted in the long term.

A Collin County community official indicated that banking needs are primarily service related and that the economy is commercially driven. The immediate area is almost built out for residential real estate and the cost of new construction begins around \$350,000. Commercial land is expected to build out within the next six to seven years. Lending opportunities were perceived to be readily available for larger, more aggressive banks. The interviewee stated that there are too many banks in the area and that new banks and/or branches of existing banks are still being

constructed. Immense competition makes it difficult for smaller, local banks to gain a meaningful share of the market.

Tables 3 and 4 provide additional demographic information.

Table 3 - Businesses by Tract and Revenue Size								
Tract Income Level	Total Businesses		Under \$1 Million		Over \$ Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	10,840	4.9	6,796	4.9	733	5.3	3,311	4.7
Moderate	59,560	26.9	35,278	25.8	4,828	35.4	19,454	27.6
Middle	69,096	31.3	42,850	31.3	4,216	30.9	22,030	31.3
Upper	78,705	35.6	50,681	37.0	3,550	26.0	24,474	34.7
N/A	2,885	1.3	1,368	1.0	328	2.4	1,189	1.7
<b>Total</b>	<b>221,086</b>	<b>100.0</b>	<b>136,973</b>	<b>100.0</b>	<b>13,655</b>	<b>100.0</b>	<b>70,458</b>	<b>100.0</b>
<b>Percentage of Total Businesses</b>				<b>62.0</b>	<b>6.2</b>	<b>31.8</b>		

Source: Dun and Bradstreet

Table 4 - Demographic & Economic Characteristics			
Tract Characteristics:		Low Income	60 10.5%
		Moderate Income	177 30.9%
		Middle Income	163 28.5%
		Upper Income	168 29.4%
		N/A	4 0.7%
		<b>Total</b>	<b>572 100.0%</b>
Assessment Area Population:		2,710,574	
Population by Census Tract Income Levels		Low Income	250,862 9.3%
		Moderate Income	837,773 30.9%
		Middle Income	820,927 30.3%
		Upper Income	800,997 29.5%
		N/A	15 nil
MSA Median Family Income:		2003 Estimated Median Family Income 65,000	
		2004 Estimated Median Family Income 65,000	
Number & Percentage of Households by Income Level of Household:		Low-Income	217,131 21.9%
		Moderate-Income	180,494 18.2%
		Middle-Income	189,652 19.2%
		Upper-Income	403,236 40.7%
		<b>Total</b>	<b>990,513 100.0%</b>
		Below Poverty Level	99,351 10.0%
Number & Percentage of Total Housing Units:		1-4 Family Residential	694,408 66.2%
		Multi-Family	332,784 31.7%
		Mobile Home or Trailer	20,513 2.0%
		Other	1,306 0.1%
		<b>Total</b>	<b>1,049,011 100.0%</b>
		Owner-Occupied Housing Units	549,723 52.4%
		Rental Housing Units	439,868 41.9%
		Vacant Housing Units	59,420 5.7%
Median Housing Characteristics:		Median Age in Years	25
		Median Home Value	130,716
		Median Gross Rent	685

Source: 2000 U.S. Census; Department of Housing and Urban Development

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Sampling Information

Millennium State Bank of Texas' (MSB) performance was primarily evaluated on its commercial lending activities, since commercial lending represented 88 percent of the loans extended. From a universe of 132 loans, a random sample of 39 commercial loans was analyzed regarding the distribution of loans to businesses of different sizes. The entire portfolio was reviewed for analyzing the bank's performance concerning the remaining criteria applicable to small banks. Residential real estate and consumer loans were not analyzed separately because these product lines represented 2.3 percent and 3.0 percent, respectively, of the loans originated. As such, these categories contained too few loans to render a meaningful separate analysis. Since this was the bank's first CRA performance evaluation, lending activities from August 2003 through April 2005 were reviewed.

### Loan-to-Deposit Ratio (LTD)

The bank demonstrated satisfactory performance for this criterion. One measure of a bank's lending activity is the loan-to-deposit ratio, which compares the volume of loans to the volume of deposits held. This institution's average LTD for the seven quarters since it opened for business was 64 percent. Subject bank's lending activity was compared to similarly situated banks offering comparable loan products. Those banks are detailed in Table 5 and listed in alphabetical order to avoid the appearance of ranking.

Table 5 – Loan-to-Deposit Ratios (Comparable Banks)					
Institution	City	Total Assets (000s)	Net Loans (000s)	Average LTD (%)	LTD 03/31/05 (%)
Dallas City Bank	Dallas	55,647	35,105	55.34	74.69
Equity Bank, SSB	Dallas	65,780	50,530	67.85	91.14
<i>Millennium State Bank of Texas</i>	Dallas	59,114	42,949	64.11	80.22
Signature Bank	Dallas	55,948	40,499	79.29	80.00
The Oaks Bank & Trust Company	Dallas	106,096	76,958	73.66	81.27

Source: Consolidated Reports of Condition and Income

Subject bank's loan-to-deposit ratio reflects adequate performance in consideration of the bank's assessment area, its banking niche, and lending activity over the period reviewed. Of special consideration is that this institution began operation two years ago and the performance by the LTD is very comparable to other institutions that have been around longer.

### Lending in the Assessment Area

Lending inside the assessment area displayed a satisfactory performance. Analysis of this criterion takes into consideration the size and composition of the assessment area, the size of the bank, and the location of the banking office. A review of the loan portfolio determined that a majority of the number and dollar volume of the loans were inside the assessment area. Table 6 depicts the bank's lending activity under this factor.

<b>Table 6 – Distribution of Loans Inside and Outside the Assessment Area</b>									
<b>Number of Loans</b>					<b>Dollar Volume of Loans</b>				
<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$ (000)</b>	<b>%</b>	<b>\$ (000)</b>	<b>%</b>	
229	72.9	85	27.1	314	59,444	62.6	35,548	37.4	94,992

Considering the bank’s lending focus, the size and location of the bank, the size and composition of the assessment area, and lending opportunities for smaller institutions in the assessment area, MSB exhibited adequate performance for lending in the assessment area. It was noted that 10.8 percent of the number and 11.5 percent of the dollar volume of loans extended were in Denton County and located in census tracts contiguous to the bank’s assessment area.

### **Lending to Businesses of Different Sizes**

The bank achieved satisfactory performance for lending to businesses of different sizes. Performance for lending to businesses of different sizes is measured by analyzing the size of the loans extended and the borrowers’ gross annual revenues.

MSB is a small bank that operates in an extremely competitive market. Thirty-nine assessment area loans were grouped according to size of the loans and gross annual revenues of the borrowers. The average loan amount extended was \$291,333. Table 7 presents the analysis of the loans by loan size. As displayed in the table, 36 percent of the loans extended by number were for less than \$100,000 and 85 percent were less than \$500,000. A review of the universe of loans revealed similar performance.

<b>Table 7 – Distribution of Commercial Loans by Loan Size</b>				
<b>Loan Size</b>	<b>Number</b>	<b>Percent (%)</b>	<b>Amount (000s) (\$)</b>	<b>Percent (%)</b>
≤\$100,000	14	35.9	649	5.7
>\$100,000 ≤ \$250,000	5	12.8	916	8.1
>\$250,000 ≤ \$500,000	14	35.9	5,673	49.9
>\$500,000 ≤ \$1,000,000	6	15.4	4,124	36.3
<b>Total</b>	<b>39</b>	<b>100.0</b>	<b>11,362</b>	<b>100.0</b>

Table 8 discloses that a notable percentage of the customer base is comprised of large income borrowers who traditionally seek larger credits. As such, data presented in Table 7 indicates that MSB is making concerted efforts to meet the credit needs of businesses of all sizes, especially those seeking smaller dollar loans.

Dun & Bradstreet business demographic data for 2004 was also used in this analysis. There were 153,823 businesses in the assessment area that reported revenue data, with 90.2 percent reporting gross annual revenues less than \$1million. Table 8 compares the 39 loans reviewed to Dun & Bradstreet data. The table discloses that the bank extended a majority of the number and dollar volume of loans to borrowers with gross annual revenues less than \$1 million. As previously stated, a notable percentage of the bank’s customer base is comprised of businesses reporting incomes exceeding \$1 million. Considering the customer base and the propensity for small

businesses to borrower smaller amounts of money, the dollar volume of loans extended to those individuals displayed good performance. Also taken into consideration was information indicating that the bank had extended credit to start up businesses and/or small entrepreneurs who later achieved large business status. Notwithstanding, a majority of the bank's commercial lending is through Small Business Administration lending programs that normally are utilized by borrowers that may have problems with normal lending channels. The bank's SBA lending is such that it has received a Preferred Lenders Program designation that allows the bank to use streamlining methods for providing financial assistance to the small business community. As noted in Table 8, the bank demonstrates a good performance in lending to small businesses and compares favorably to peer data.

<b>Table 8 - Distribution of Business Loans by Gross Annual Revenues</b>					
<b>Revenue Level</b>	<b>Percentage of Businesses by Revenue Level</b>	<b>Number of Loans</b>		<b>Dollars in Loans (000s)</b>	
		<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>&lt;50K</b>	17.5	11	28.1	3,591	31.6
<b>50-99K</b>	27.9	1	2.6	127	1.1
<b>100-249K</b>	27.0	4	10.3	1,563	13.8
<b>250-499K</b>	11.5	8	20.5	2,732	24.1
<b>500-999K</b>	6.3	5	12.8	1,625	14.3
<b>&gt;1MM</b>	9.8	10	25.7	1,724	15.1
<b>TOTAL</b>	<b>100.0</b>	<b>39</b>	<b>100.0</b>	<b>11,362</b>	<b>100.0</b>

Source: Dun & Bradstreet and Bank Records

### **Geographic Distribution of Loans**

Satisfactory performance was exhibited for distributing loans throughout the assessment area. This factor evaluates the distribution of loans among the various census tract income levels. Performance was also compared to the percentage of businesses in those tracts. As noted in Table 9, lending in low- and moderate-income geographies was comparable to the percentage of census tracts in the various income levels and to the percentage of businesses in those tracts.

<b>Table 9 - Distribution of Loans by Income Level of Census Tract</b>						
<b>Tract Income Level</b>	<b>% of Census Tracts</b>	<b>% of Businesses</b>	<b># of Loans</b>	<b>Percent</b>	<b>\$ Volume (000s)</b>	<b>Percent</b>
Low	10.5	4.9	6	2.6	2,361	4.0
Moderate	30.9	26.9	56	24.5	20,959	35.3
Middle	28.5	31.3	78	34.1	20,334	34.2
Upper	29.4	35.6	89	38.8	15,790	26.5
N/A	0.7	1.3	0	0	0	0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>229</b>	<b>100.0</b>	<b>59,444</b>	<b>100.0</b>

Source: 2000 U.S. Census, Dun & Bradstreet, Bank Records

The bank's location was also taken into consideration. MSB is triangularly located between I-635 and I-35E, which are two of Dallas' most traveled roadways. Although MSB is located in a moderate-income tract, there are few low- and moderate-income tracts in the surrounding area. The highest concentration of low- and moderate-income geographies is west and south of I-35E and served by a large number of financial institutions. Due to the convenience of numerous financial entities, individuals would not customarily travel beyond that area for financial services. As such, the bank's performance showed that it is making concerted efforts to meet the needs of all tract income levels. Internal tracking of loans displayed similar results.

### **Response to Complaints**

Millennium State Bank of Texas has not received any complaints regarding its performance under the Community Reinvestment Act.

### **Compliance with Anti-discrimination Laws and Regulations**

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified. MSB was found to be in compliance with Fair Lending laws and regulations.

## GLOSSARY

**Assessment Area:** A geographic area(s) delineated by a financial institution in accordance with the requirements of the Community Reinvestment Act.

**Dun & Bradstreet:** A leading provider of business information for credit, marketing, and purchasing decisions in the United States and worldwide.

**Census Tract:** Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Geography:** A census tract delineated by the U.S. Census Bureau in the most recent decennial census.

**Metropolitan Statistical Area (metro area):** A metro area is a Census Bureau defined urbanized area that has a population of at least 50,000. There are 370 metro areas in the United States and Puerto Rico.

**Metropolitan Divisions (MD):** Metropolitan Statistical Areas (MSA) containing a single core with a population of 2.5 million or more were subdivided to form smaller groupings of counties referred to as Metropolitan Divisions. There are 11 instances (Boston, Chicago, Dallas, Detroit, Los Angeles, Miami, New York, Philadelphia, San Francisco, Seattle, and Washington) where MSAs were subdivided into MDs.

**Small Business Loan:** A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.