



PUBLIC DISCLOSURE

April 17, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Colonial Savings, Fa
Charter Number 706809

2626c West Freeway Fort Worth, TX 76102-7109

Office of the Comptroller of the Currency
Fort Worth Field Office
9003 Airport Freeway Suite 275 North Richland Hills, TX 76180-9127

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 Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

Colonial Savings, F.A. (Colonial or bank) has a satisfactory record of meeting community credit needs within its designated assessment areas (AAs). This conclusion is based on the following:

- The loan-to-deposit ratio is reasonable given the bank's size, strategy and performance context. The institution's loan-to-deposit ratio averaged 78.90 percent during the evaluation period.
- The bank's lending distribution reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes within the AA and meets the standards for satisfactory performance.
- The bank's geographic distribution of home mortgage and commercial loans to low- and moderate-income census tracts within its defined AAs reflects a reasonable dispersion and meets the standards for satisfactory performance.
- The bank's community development (CD) performance is adequate. Colonial demonstrates satisfactory responsiveness to the community development needs of its AAs through community development services, investments and loans.
- The majority of the bank's lending was outside its defined AAs. When performance issues are considered however, Colonial's overall efforts to meet the credit needs of its AAs are adequate and concerns with the high volume of loans originated out of the bank's AA are mitigated.
- No consumer complaints regarding Colonial's CRA performance were received during this evaluation period.

Scope of Examination

Colonial Savings qualifies as an Intermediate Small Bank under the Community Re-investment Act (CRA) regulation and is, thus, subject to a Lending Test and a CD Test. The Lending Test evaluates the bank's record of helping to meet the credit needs of its AAs through its lending activities. The CD Test evaluates the bank's responsiveness to identified needs within its AAs through its CD-related lending, qualified investments, and services. We began the CRA performance evaluation of the bank on April 17, 2016. The evaluation period for the Lending Test runs from January 1, 2013 through December 31, 2015. The evaluation period for the CD Test runs from January 1, 2013

through March 31, 2016. The demographic and geographical data referenced in evaluating the bank's performance under the lending test was based on information aggregated during the 2010 Census.

Our evaluation of the bank's performance under the lending test was based on a review of the bank's primary lending products. At 93 percent of the portfolio, one-to-four family residential real estate loans constitute the bank's predominant lending product. The bank does not offer home-improvement loans as one of its products. At a significantly lower volume, commercial real estate and commercial loans comprise the bank's secondary products. For purposes of our review, we considered all home mortgage lending activity reportable under the Home Mortgage Disclosure Act (HMDA) and a combined sample of commercial real estate and commercial loans originated during the evaluation period. We combined samples from the commercial real estate and commercial loans due to the low volume of loans in each of the respective portfolios. The number of loans available for sampling was only sufficient for an income and geographical distribution analyses within one of the bank's two designated AAs. Prior to the start of the CRA exam, we tested the bank's HMDA data to verify the accuracy of data used to be used during this evaluation. We found the data to be accurate and therefore reliable. We also verified CD loans, investments, and services submitted by management to ensure they met the regulatory definition for CD activities. We excluded any items that did not meet the definition or purpose of community development.

In evaluating Colonial's CRA performance, we will consider its business model as part of performance context factors that impact certain portions of the lending test. The bank's business model is such that fits the definition of a non-traditional institution, a nontraditional institution being one that conducts the substantial majority of its retail lending activity through means other than branch offices in order to reach regional or nationwide markets. This may be through loan production offices, agents, telemarketing, direct mail or the internet. Given Colonial's mode of operations, evaluating its CRA performance record based solely on the lending volume within its delineated AAs would not capture, in its entirety, the institution's full performance in meeting the credit needs of the various areas it services.

Description of Institution

Colonial is a federally chartered stock savings institution that was established in 1952 and is headquartered in Fort Worth, Texas. The bank's primary business is mortgage banking, including all aspects of mortgage origination, sales, packaging, and servicing. Mortgage product offerings include conventional fixed, adjustable, and blended rate mortgage loans for the construction, purchase, or refinance of one- to four-family properties. The bank's model is such that it originates mostly home purchase and home refinance loans, sells them on the secondary market, and retains the servicing rights. The bank has become one of the largest servicers of home mortgage loans in the United States, servicing an average of \$24 billion in one-to-four family residential loans as of September 2015. Colonial also operates as a full-service bank and offers traditional depository products as well as internet banking services.

The bank's other loan product offerings include general commercial and industrial loans, consumer loans and a few commercial real estate loans. The consumer loans are made mostly to accommodate existing customers and are very low in volume. The commercial and industrial loan portfolio is a product that the bank is interested in expanding in the immediate future, primarily within its AAs.

Colonial is 100 percent owned by Colonial Holding Company (CHC). CHC has no other significant assets or liabilities. The holding company's activities do not influence the bank's CRA rating.

At December 31, 2015, the bank held over \$1.15 billion in total average assets with net loans comprising 54% of these assets. The following table outlines the bank's loan portfolio distribution and associated dollar amounts as of this date.

Loan Portfolio Summary by Loan Product		
December 31, 2015		
Loan Category	\$(000)	%
Home Mortgage Loans	501,567	93.0
Commercial Real Estate	18,410	3.4
Consumer & Industrial Loans	9,977	1.9
Consumer Loans	3,877	0.70
Construction Loans	3,299	0.60
Total	537,130	100.00%

Source: December 31, 2015 Report of Condition.

Colonial conducts its business through 26 mortgage production offices (MPOs), correspondent relationships with credit unions nation-wide and seven full-service local branches in addition to the bank's main office. With the main office and one of the bank's local branches located in Fort Worth, the bank's six other branches are located in the north-central Texas communities of Dallas, Arlington, Cleburne, Sachse, Colleyville and Lewisville. Four of the eight branches are located in middle-income census tracts, three in upper-income census tracts, and one in a low-income census tract. Five of these branch sites operate drive-up ATM machines. Colonial has not closed any branches during this evaluation period. The bank's MPOs are located primarily in Texas, with two in Colorado and one each in Florida, California, Louisiana, Oklahoma and Kansas.

There are no legal, financial or other factors impeding the bank's ability to help meet the credit and community development needs in its AAs. The bank received a Satisfactory rating during its previous CRA examination dated April 8, 2013.

Description of Assessment Area(s)

Colonial has designated both the Fort Worth-Arlington and Dallas-Plano-Irving metropolitan statistical areas (MSA) as its AAs. When factors such as the bank's overall

operations, branch network and deposit distribution are considered, the Fort Worth-Arlington MSA is the bank's primary AA. As of our evaluation date, five of the bank's local branches and 93 percent of deposits were held within the Fort Worth-Arlington MSA. For the purposes of the Lending Test however, both the Fort Worth-Arlington MSA AA and the Dallas-Plano-Irving MSA AA will receive full-scope reviews due to the bank's comparable proportion of lending activities within the two AAs. Demographic and economic data for each of the AAs is reflected in the following table:

Demographic and Economic Characteristics		
Assessment Area	Fort Worth-Arlington MSA	Dallas-Plano-Irving MSA
<i>Population</i>		
Number of Families	541,844	1,004,926
Number of Households	766,307	1,462,057
<i>Geographies</i>		
Number of Census Tracts	427	897
% Low-Income Census Tracts	7.96	12.93
% Moderate-Income Census Tracts	26.93	24.75
% Middle-Income Census Tracts	39.11	26.42
% Upper-Income Census Tracts	25.76	35.56
% N/A Census Tracts	0.23	0.33
<i>Median Family Income</i>		
2010 MFI for Assessment Area	\$70,346	\$75,391
2015 HUD-Adjusted MFI	\$68,700	\$69,100
<i>Economic Indicators</i>		
Unemployment Rate	4.85	4.74
2010 Median Housing Value	\$144,383	\$173,315
% of Households Below Poverty Level	11.61	11.87
% of Households on Retirement Income	13.83	11.00

Source: 2010 Census data and updated HUD income data

Fort Worth-Arlington (Fort Worth) MSA AA

The Fort Worth MSA AA is comprised of Tarrant, Johnson, Parker, Hood, Wise and Somervell counties. Although the bank's branch locations are located in Tarrant and Johnson counties, its lending activities encompass the entire MSA. The AA consists of whole geographies and does not arbitrarily exclude low- or moderate-income geographies. Overall, the AA designation meets the requirements of the CRA regulation.

Based on the 2010 US Census, the AA population totals 2.195 million. There 427 census tracts within the AA, of which 7.96 percent are low-income and 26.93 are moderate-income census tracts. The proportion of middle- and upper-income tracts comprise 39.11 and 25.76 percent, respectively. There are 846,414 housing units in the

AA, of which 59.77 percent are owner-occupied, 30.76 percent are renter-occupied, and 9.46 percent are vacant. The median housing value is \$144,383.

According to the 2010 US Census, the percentage of those living below the poverty level within the MSA is moderate at 11.6 percent. Colonial does offer special residential mortgage loan programs within its AAs to assist low- and moderate-income families to afford home purchases. These programs are discussed in the **Community Development and Services** section.

Based on Dun & Bradstreet data reported as of June 2014, there are 185 thousand businesses in the AA. Of these businesses, 81 percent report gross annual revenues less than \$1 million and 4 percent report gross annual revenues equal to or greater than \$1 million. Because reporting is voluntary, 15 percent of the businesses did not report revenues.

Economic conditions within the Fort Worth MSA AA remain strong and highly diversified. The Fort Worth community serves as a dynamic hub for the manufacturing, commercial, transportation and financial services industries. The area also provides multiple cultural and recreational opportunities. Tarrant County is the largest and most populous county within the MSA and is also one of its major employers. Other major employers in the area include Alcon, Arlington ISD, Bell Helicopter, and Cook Children's Health Care System. Over the long term, growth continues to be projected in a variety of industries within the Fort Worth-Arlington MSA AA, opening up possibilities for a sustained increase in employment opportunities. According to the United States Bureau of Labor Statistics, the unemployment rate was 3.7 percent as of June 29, 2016. The low unemployment rate within the Fort Worth MSA AA compares favorably with the national unemployment rate of 4.85 percent.

Two community contacts were considered as part of this performance evaluation. They identified the need for financing future multi-family developments in low- and moderate-income communities and loans to fund affordable housing and lines of credit to small businesses as their perception of the primary needs of the Fort Worth-Arlington MSA AA.

The Fort Worth MSA AA is highly competitive. Competition from other financial institutions is above-average and increasing. The primary competition consists of other state and national financial institutions, credit unions, and branch facilities of large regional and national institutions most of which compete through lower lending rates and higher deposit product offerings. Competition in identifying and securing good community development lending and investments opportunities is also high.

Dallas-Plano-Irving (Dallas) MSA AA

The Dallas MSA AA is comprised of Collin, Dallas, Denton, Ellis, Hunt, Kaufman and Rockwall counties. Similar to the Fort Worth MSA AA, the bank has branch locations

only in Denton, Collin, and Dallas counties, but serves the entire Dallas MSA through its lending activities. The bank's AA encompasses the entire MSA and does not arbitrarily exclude any areas, including low- or-moderate-income areas. Overall, the AA designation meets the requirements of the CRA regulation.

Based on the 2010 US Census, the population within the AA is 4.23 million. There 897 census tracts within the AA with 12.93 percent designated as low-income and 24.75 as moderate-income. The proportion of middle- and upper-income tracts comprise 26.42 and 35.56 percent, respectively. There are 1,613,517 housing units in the AA, of which 56 percent are owner-occupied, 35 percent are renter-occupied, and 9 percent are vacant. The median housing value is \$173,515.

The average home price with the Dallas MSA AA is \$173,515 and according to the 2010 US Census, the percentage of those living below the poverty level within the MSA is moderate at 11.7 percent.

According to the Dun & Bradstreet data provided as of June 2014, there are 394 thousand businesses in the AA. Of these businesses, 79 percent reported gross annual revenue of less than \$1 million and 4 percent reported gross annual revenue equal to or greater than \$1 million. Because reporting is voluntary, 16 percent of the businesses did not report revenues.

Dallas is the third largest city in Texas and the eighth most populous city in the United States. A well-diversified business environment supports the Dallas economy, including major industries such as airline travel, petroleum refinement, telecommunications, banking and computer technology. The top five employers in the Dallas AA are Walmart, American Airlines, Texas Health Resources, Bank of America, and the Dallas ISD. According to the United States Bureau of Labor Statistics, the unemployment rate was 3.8 percent as of June 29, 2016. The low unemployment rate within the Dallas MSA AA compares favorably with the national unemployment rate of 4.85 percent.

Community contacts conducted in connection with this examination disclosed that there are no significant gaps in local financial institutions meeting the credit needs of the AA and that there are significant opportunities to participate in CD lending and investments. The primary credit needs identified include financing for affordable housing and other residential mortgage lending, small business loans in support of economic development, and consumer loans.

The Dallas MSA AA is a highly competitive banking market that includes several of the nation's largest money center and regional bank holding companies, credit unions and other state and federal financial institutions. The majority of these institutions offer very competitive rates on loans and deposits.

Conclusions with Respect to Performance Tests

Colonial's performance in meeting the credit needs of its AAs is satisfactory. Our conclusion is based on the bank's reasonable loan-to-deposit ratio, adequate lending performance within the AAs after performance context factors are considered, a reasonable distribution of loans to borrowers of different incomes and businesses of different sizes, and a reasonable geographic dispersion of loans to low- and moderate-income tracts.

To assess Colonial's performance under the lending test, we reviewed the bank's residential real estate mortgage lending activity for the years 2013, 2014 and 2015 using loan data as reported under HMDA. We also reviewed a sample of loans from the bank's commercial and industrial loan portfolio.

Loan-to-Deposit Ratio

Colonial's loan-to-deposit (LTD) ratio is **reasonable** given the bank's size, financial condition, local competition, and AA credit needs. The LTD ratio measures the proportion of banks' deposits going back out in the form of loans. The average LTD ratio for each quarter-end since the previous CRA examination is used to determine performance in this area. Colonial's average LTD ratio for the rating period is 78.90% and reflects a decline from the average ratio of 102.97% at the last CRA performance evaluation. During the evaluation period, Colonial's loan-to-deposit ratio ranged from a low of 66.74 percent to a high of 98.39 percent. The lowest range of the bank's LTD occurred during the first quarter of 2014 and is attributable to a decline in loan production during that period brought about by increasing mortgage rates. Colonial's average loan-to-deposit ratio during the evaluation period was comparable to peer banks. The average loan-to-deposit average ratio for peer banks during the same rating period was 81.26%.

The following table reflects how Colonial's LTD performance compares to six other similarly-situated banks in terms of asset size and operations within at least one of the bank's AAs.

Loan to Deposit Ratios			
Institution	State	Assets as of 12/31/2015 (\$MM)	Average LTD Ratio %
State Bank of Texas	TX	\$660	93.98%
Veritex Community Bank	TX	\$1,039	87.82%
Woodhaven National Bank	TX	\$555	82.68%
Sovereign Bank	TX	\$1,111	81.88%
Colonial Savings, F.A	TX	\$1,166	81.28%
Dallas Capital Bank	TX	\$627	66.39%
North Dallas Bank & Trust Co.	TX	\$1,352	44.34%

Source: Institution Reports of Condition from June 30, 2013 to March 31, 2016.

Lending in Assessment Area

A substantial proportion of the bank's lending was made outside its designated AAs. As Table 1 below indicates, only 23 percent of both the number of loans and the dollar amount of loans originated during the evaluation period were originated within the bank's AAs. When performance context factors associated with the bank's business model are considered, the bank's low lending proportion within its AAs is reasonably explained and related concerns are mitigated.

Table 1 - Lending in Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Purchase	6,787	24.19	21,266	75.81	28,053	1,292,852	25.55	3,766,894	74.45	5,059,746
Refinance	8,718	22.32	30,341	77.68	39,059	1,305,348	20.90	4,939,503	79.10	6,244,851
Commercial Loans	24	85.71	4	14.29	28	17,707	91.74	1,595	8.26	19,302
Totals	15,529	23.13	51,611	76.87	67,140	2,615,907	23.10	8,707,992	76.90	11,323,899

Source: Loans reported under 2013-2015 HMDA data submissions and a sample of small business loans.

As discussed in the "***Institution Description***" section, Colonial operates a substantial mortgage banking operation, serving a nation-wide retail market primarily through a combination of eight banking locations and non-branch delivery avenues such as MPOs located in multiple states and correspondent relationships with credit unions all over the country. The bank's business model is such that fits the definition of a non-traditional institution as outlined in the "***Examination Scope***" section. Given Colonial's non-traditional business model, we did not evaluate its CRA performance solely on the lending volume within its delineated AAs, as that would not entirely capture the institution's full performance in meeting the credit needs of the various areas it services.

In addition to evaluating the bank's in and out ratio strictly within its defined AAs, we took into consideration the bank's lending performance within the state of Texas, where 16 of the bank's total 23 MPOs are located. During the evaluation period, the bank's lending within Texas averaged 48 percent of all home mortgage loan originations. While the lending ratio within Texas still does not constitute a majority, the increase in lending volume when the bank's lending activity is expanded to include the entire state of Texas reflects a higher level of lending in areas proximate to where the bank has a substantial portion of its MPOs and lends a favorable impact to the assessment of the bank's performance in meeting the credit needs of the areas it services.

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

The bank’s overall distribution of loans made to businesses of different sizes and individuals of different income levels within its defined AAs reflects a reasonable penetration. In evaluating the bank’s lending distributions, we placed more weight on residential real estate loans, given its significant representation of the loan portfolio. Home mortgage and home refinance loans, which are the two residential real estate loan products offered by the bank, each received equal weight due the comparability in loan origination volume.

Fort Worth MSA AA

Residential Real Estate Loans

The bank’s overall distribution of residential real estate loans reflects a reasonable penetration to low- and moderate-income families and meets the standards for satisfactory performance. The bank’s overall lending activity to borrowers within these income brackets compared favorably with the peer aggregate mortgage lending activity within the AA. As reflected in Table 2, the bank’s distributions of home purchase loans to low- and moderate-income borrowers each slightly exceed the aggregate of peer banks within the AA. The percentage of the bank’s home refinance loans made to moderate-income borrowers far exceeds that of peer lenders within the AA. In addition, the percentage of home refinance lending to low-income borrowers slightly exceeds the aggregate of peer lenders.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Ft Worth MSA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of Aggregate	% of Number of Loans	% of Aggregate	% of Number of Loans	% of Aggregate	% of Number of Loans	% of Aggregate	% of Number of Loans
Purchase	4.76	5.32	16.85	17.21	20.71	24.82	43.67	44.99
Refinance	3.53	5.69	9.24	13.71	16.12	22.66	47.09	43.91

Source: HMDA Aggregate income

Commercial Loans

Colonial’s distribution of loans to businesses of different sizes is reasonable, meeting the standards for satisfactory performance. Small businesses are categorized as businesses with annual gross revenues less than \$1 million. Lending performance to small businesses during the evaluation period was satisfactory, with 70 percent of commercial loans by number and 74 percent by dollar amount originated to businesses with revenues less than \$1 million. This is comparable to the 80 percent designated as small businesses within the AA.

Table 2A - Borrower Distribution of Loans to Businesses - Fort Worth MSA				
Business Revenues (or Sales)	< \$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	80.58	3.67	15.74	100%
% of Bank Loans in AA by #	70.00	20.00	10.00	100%
% of Bank Loans in AA by \$	73.67	25.58	0.74	100%

Source: Loan sample; Dunn and Bradstreet data.

Dallas MSA AA

Residential Real Estate Loans

The bank’s overall distribution of residential real estate loans within the Dallas MSA AA reflects a reasonable lending penetration to low- and moderate-income families and meets the standards for satisfactory performance. The bank’s overall lending activity to low- and moderate-income borrowers is near to or exceeds the aggregate peer mortgage lending averages within the AA. The bank’s percentage of home purchase loans to low- and moderate-income borrowers is somewhat lower than corresponding peer aggregate lending percentages. However, the bank’s home refinance distribution of lending to low- and moderate-income families exceeds that of peer lenders. The percentage of the bank’s home refinance loans made to moderate-income borrowers far exceeds that of peer lenders within the AA. The percentage of home refinance lending to low-income borrowers slightly exceeds the aggregate of peer lenders.

As discussed in the “**Description of Assessment Area**” section, higher home prices and a moderate level of families in the AA living within the poverty level continue to limit the access of low- and moderate-income borrowers to home ownership. These factors likely drive the bank’s slightly lower levels of penetration of home purchase lending to low- and moderate-income borrowers in comparison with peer lenders.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Dallas MSA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans
Purchase	4.47	3.29	15.04	14.48	18.25	19.65	49.23	58.29
Refinance	3.74	4.89	9.62	14.01	15.27	18.26	50.41	48.16

Source: 2013 HMDA aggregate, HMDA Lar 2013-2015

Commercial Loans

Due to the very low volume of commercial and commercial real estate loans within the Dallas MSA AA, we did not perform a distribution analysis, as such analysis would not have been meaningful.

Geographic Distribution of Loans

The bank's overall geographic distribution of home mortgage and commercial loans to low- and moderate-income census tracts reflects a reasonable dispersion and meets the standards for satisfactory performance. We identified no conspicuous gaps in lending within the bank's designated AAs. In evaluating the bank's geographic distributions, we placed more weight on residential real estate loans, as this constitutes the bank's predominant product.

Fort Worth MSA AA

Residential Real Estate Loans

The geographic distribution of residential real estate loans within the Fort Worth MSA AA is reasonable. As reflected in Table 3, the percentage of the bank's home purchase loans made to low- and moderate-income census tracts exceeds the mortgage aggregate percentages of peer lenders. In addition, the bank's distribution of home refinance loans to low-income census tracts is near to that of peer lenders while the bank's home refinance lending in moderate-income census tracts exceeds those of peer banks. To provide additional supporting context, only 3.35 percent of housing in the low-income tracts within the AA is owner-occupied according to the 2010 US Census. The proportion of owner-occupied housing, however, significantly increases to 19.48 percent for moderate-income tracts.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Ft Worth MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans
Purchase	0.78	0.99	10.53	11.81	39.04	40.69	49.65	46.51
Refinance	0.63	0.62	9.30	11.16	38.45	45.54	51.63	42.68

Source: 2013 HMDA aggregate, HMDA Lar 2013-2015

Commercial Loans

Colonial's geographic distribution of commercial loans reflects an excellent dispersion. The bank reports no lending within the low-income census tracts; however, this lack of dispersion can be reasonably explained by the overall low number of businesses located with low-income census tracts within the AA. The distribution of commercial loans to moderate-income tracts far exceeds the percentage of small businesses within the AA and exceeds the standards for satisfactory performance.

Table 3A - Geographic Distribution of Loans to Businesses in Fort Worth MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
	4.36	0.00	20.38	42.00	37.83	29.00	37.39	29.00

Source: Dunn & Bradstreet data.

Dallas MSA AA

Residential Real Estate Loans

The geographic distribution of residential real estate loans within the AA is reasonable. As reflected in Table 4, the percentage of the bank’s home purchase loans made to low- and moderate-income tracts exceeds peer mortgage aggregate percentages. Likewise, the bank’s home refinance lending to low- and moderate-income census tracts exceeds that of peer lenders within the AA.

Table 4 - Geographic Distribution of Residential Real Estate Loans in Dallas MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans
Purchase	1.95	2.08	9.66	10.76	29.71	29.49	58.68	57.68
Refinance	1.67	2.56	9.08	12.03	26.04	29.62	63.21	55.76

Source: 2013 HMDA aggregate, HMDA Lar 2013-2015

Commercial Loans

Due to the very low volume of commercial and commercial real estate loans within the Dallas MSA, we did not perform a distribution analysis, as such analysis would not have been meaningful.

Responses to Complaints

There have been no consumer complaints regarding the bank’s CRA performance during the evaluation period.

COMMUNITY DEVELOPMENT TEST

Colonial **meets** the standards for satisfactory performance under the CD Test. Colonial demonstrates an adequate responsiveness to the CD needs of its AAs through the use

of CD loans, qualified investments, and CD services, considering the bank's capacity, and the need and availability of such opportunities in the AAs.

Our conclusion is based on the bank's performance context and the review of all of the bank's CD lending, and CD investments, donations, and qualifying employee service hours performed during the evaluation period. The bulk of the bank's CD activity was concentrated within the Fort Worth MSA AA, as this AA houses the majority of its local branches and accounts for 92 percent of total deposits.

Number and Amount of Community Development Loans

Considering the needs and opportunities in the AAs, and Colonial's performance context and capacity, the bank's overall CD lending activity reflects adequate responsiveness.

Fort Worth MSA AA

The level of qualified CD loans within the Fort Worth MSA AA reflects adequate responsiveness. During the evaluation period, Colonial Savings originated 4 CD loans totaling \$3.27 million within the AA.

One of the loans is to a health clinic located in a moderate-income area of Fort Worth. The clinic provides free health care for uninsured individuals with income no more than 200 percent of the national poverty level. By funding this clinic, Colonial is providing a community service to low- and moderate-income individuals. Another loan was renewed during the review period for a non-profit organization that leads, coordinates, and develops strategies and resources to prevent homelessness in Tarrant County. This loan is a working capital line of credit to cover timing differences between HUD grants and expenses of the organization. This entity, located in a low-income census tract of Fort Worth, plans, funds, and administers programs that assist homeless individuals and families in their transition from homelessness to housing. Through its financial support, Colonial is providing a community service to low- and moderate-income individuals and families, as well as promoting affordable housing. The largest CD loan was made to a company that is helping to revitalize a moderate-income area in downtown Arlington by operating businesses that both provide entry level jobs and attract other businesses.

Dallas MSA AA

There were no qualified CD loans made within the Dallas MSA AA during the evaluation period. The bank's level of CD lending with this AA reflects poor responsiveness and needs to improve. The bank's lack of CD lending within the Dallas MSA AA is reasonably explained by the concentration of its branch locations and deposit base within the Fort Worth MSA. However, efforts must be made to identify CD lending opportunities also within the Dallas MSA AA.

Number and Amount of Qualified Investments

Considering the needs and opportunities in the AAs, and Colonial's performance context and capacity, the bank's CD investments indicate adequate responsiveness. During the review period, Colonial increased its equity investment in the CRA Qualified Investment Fund (Fund) initially purchased during a prior period. The investment was increased from \$2.5 million to \$5 million in December 2015, and increased another \$1.3 million in January 2016 to a total investment of \$6.3 million. The Fund purchases and holds CRA-qualifying investments in the purchasing institution's assessment area. Colonial's investment is now carried at \$6.3 million.

Fort Worth MSA AA

- The level of qualified CD investments within the Fort Worth MSA AA reflects adequate responsiveness. During the evaluation period, the bank invested in the following: an affordable housing mortgage revenue bond backed by pools of loans made to persons or families of low- and moderate-income in order to finance the purchase of single family houses in Dallas, Denton, Johnson, and Tarrant Counties (\$4,854),
- three residential loans to low-income families, one in Denton County, and two in Tarrant County (\$294,504),
- and 30 residential loans to moderate-income families, seven in Denton County, one in Johnson County, and 22 in Tarrant County (\$4,600,206).

Other qualified investments totaling \$254,111 include donations and contributions to organizations in the AA that promote affordable housing and provide community services targeted to low- or moderate-income individuals. Most notable is \$100,000 donated to Housing Opportunities of Fort Worth, a non-profit HUD-approved housing assistance agency that provides homebuyer education programs including pre- and post-purchase counseling services primarily to low- and moderate-income individuals. Colonial makes its donations in accordance with its stated goals of adequately meeting housing needs and providing banking services within its assessment areas.

Dallas MSA AA

The level of qualified CD investments within the Dallas MSA AA reflects adequate responsiveness when the bank's branch and deposit base distribution are considered. During the evaluation period, the bank invested in the following:

- an affordable housing mortgage revenue bond backed by pools of loans made to persons or families of low- and moderate-income in order to finance the purchase of single family houses in Dallas, Denton, Johnson, and Tarrant Counties (\$4,854),
- an income-restricted apartment complex with affordable rents located in a low-income census tract in Dallas County (\$1,135,000).

In addition, donations totaling \$10,500 were contributed to organizations in the AA that promote affordable housing and provide community services targeted to low- or moderate-income individuals. As of our evaluation period, additional \$7,750 in donations were in the pipeline of being contributed.

Extent to Which the Bank Provides Community Development Services

Overall, Colonial's CD services reflect adequate responsiveness to the needs and opportunities in the AAs. Service delivery systems are reasonably accessible to geographies and individuals of different income levels in the AAs. Business hours and services are convenient and accessible to all segments of the AAs.

Colonial also meets the CD service needs of the AAs through volunteer activities by its officers and employees. By providing financial services that take advantage of bank employees' financial expertise, the bank is responsive to the needs of low- and moderate-income individuals and families. These services include developing and conducting financial educational programs to individuals and providing technical financial assistance to CD organizations. Colonial officers serve in leadership roles such as directors of housing advocacy organizations and economic development boards, and finance committee members of local charitable organizations whose mission is to provide assistance, education and skills to low- and moderate-income residents.

Fort Worth MSA AA

The CD services completed within the Fort Worth AA reflect adequate responsiveness to the AA's needs and opportunities. During the evaluation period, Colonial's management and personnel provided a total of 1,971 hours of qualifying CD services to 46 organizations that benefited low- and moderate-income individuals and families in the AAs.

Dallas MSA AA

The CD services completed within the Dallas AA reflect adequate responsiveness to the AA's needs and opportunities. During the evaluation period, Colonial's management and personnel provided a total of 192 hours of qualifying CD services to two organizations that benefited low- and moderate-income individuals and families within the AAs.

Colonial offers residential mortgage loan programs within the AAs to assist low- and moderate-income families in financing home purchases. During the review period, Colonial participated in the Federal Home Loan Bank of Dallas (FHLB) Home Equity Leverage Program (HELP). Through HELP the FHLB provides grants through its members (Colonial is a participating lender) to first-time homebuyers who are income qualified (primarily low- or moderate-income families). The bank assists the applicants in obtaining these grants that are on a first-come, first-served basis. The maximum

HELP award per household is \$7,000. The FHLB's subsidized funds for Colonial's borrowers were \$47,000 and assisted nine borrowers. The related loans are reported on the HMDA loan application register and are included in the tables contained in this Performance Evaluation.

General Services

The branch system is the primary delivery system for retail banking services and is supplemented by five drive-up ATMs located at branch sites. During the evaluation period, Colonial did not open or close any branches. Four of the eight branches are located in middle-income census tracts, three in upper-income census tracts, and one in a low-income census tract. The distribution of branches and ATMs is reasonable in comparison to the overall distribution of low-, moderate-, middle- and upper-income geographies in the AA. Banking hours provide adequate accessibility throughout the AAs. All locations maintain standard banking hours of 8 am to 5 pm Monday through Friday with lobby hours extended to 6 pm on Friday. The drive-through lanes at six of the eight branches are open Saturdays.

Colonial's banking programs and hours allow it to deliver needed banking and credit services to low- or moderate-income areas and individuals in the AA, including:

- Free personal checking that includes free online banking, free bill pay and free Visa Check Card/Debit Card features that assist in providing services to low- and moderate-income individuals. This account only requires a \$100 opening deposit. The account comes with free ATM fees at Colonial's five ATMs as well as the entire Wells Fargo network, which numbers more than 400 ATMs in Texas. Online banking includes bill payment, online statements, ACH originations, and transferring funds between accounts.
- Business checking with no minimum monthly balance required (\$8 monthly fee if balance falls below \$2,500), first 100 credits and debits per cycle are free, free online banking and free debit card.
- Colonial Deposit Express, which allows small businesses to scan checks for electronic deposit from their place of business.
- Free banking by mail.
- Free 24-hour banking by phone, internet banking, and mobile banking with smart phones or other mobile devices. All of these services are offered in English and Spanish.
- Matricula identification cards are allowed by Colonial to accommodate Mexican citizens working in the U.S. and in need of a U.S. bank account. Law

enforcement officials in the Dallas-Fort Worth Metroplex have stated that opening accounts to the unbanked and under-banked population helps fight crime in low- and moderate-income areas.

- Personal Visa and MasterCard credit cards are available through Colonial (processed through a third party).
- Business Visa credit cards are available through Colonial (processed through a third party).
- SBA loans to small businesses.
- Consumer loans, loans on deposits, lines of credit, business loans, and residential mortgage loans.

Responsiveness to Community Development Needs

The volume and responsiveness of Colonial to the CD needs of its AAs is adequate. The Board has identified housing needs and banking services as its CD goals. It has allocated dollar and manpower resources to achieve those goals, particularly through housing finance programs, banking products, and active participation in providing financial management tools to low- and moderate-income individuals to become successful with their finances.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

The OCC did not identify evidence of discriminatory or other illegal credit practices with respect to this institution.