



PUBLIC DISCLOSURE

February 18, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Colombo Bank
Charter Number 707173

1600 E. Gude Drive
Rockville, MD 20850

Office of the Comptroller of the Currency

400 7th Street S.W.
Washington, DC 20219

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 following factors support this rating:

- The Bank's quarterly average net loan-to-deposit ratio is reasonable;
- A majority of loans were originated within the institution's assessment area (AA);
- The distribution of loans by borrower income represents a reasonable penetration among individuals of different income levels; and
- The geographic distribution of loans reflects reasonable dispersion throughout the census tracts (CT) of different income levels.

SCOPE OF EXAMINATION

This evaluation assesses the performance of Colombo Bank (Colombo or Bank) pursuant to the Community Reinvestment Act (CRA) for the review period, from January 1, 2012, through December 31, 2013. We evaluated the Bank using the small bank performance criteria, which consists of a lending test. The lending test evaluates the Bank's record of helping to meet the credit needs of its AA through its lending activities. We selected residential mortgage loans as the Bank's primary loan product based on total loans originated during the 2013 calendar year. The Bank had no lending activity during the 2012 calendar year.

Since the institution's last CRA evaluation dated October 14, 2008, the Bank has undergone a merger and a name change. Colombo previously operated under the name of Independence Federal Savings Bank (Independence), and was headquartered in Washington, D.C. On November 27, 2013, Independence merged with Colombo Bank, Rockville, Maryland (Charter Number 708575). The resulting entity retained the Independence charter number, but uses the Colombo Bank name and moved its home office location to Rockville, Maryland. For the 2013 calendar year, the Bank filed its 2013 Home Mortgage Disclosure Act (HMDA) loan application register (LAR) that included data for both institutions. Prior to 2013, we relied on loan activity information for only the surviving charter, which relates to the Bank formerly known as Independence (Charter Number 707173).

Since December 2013, Colombo has been operating under a Consent Order. Prior to the November 2013 merger, Independence had been operating under a Consent Order since August 2012. This document replaced a Cease and Desist Order from February 2011, which replaced a Cease and Desist Order from August of 2009. The 2011 and 2012 enforcement actions, as well as the Bank's financial condition at the time, contributed to the lack of lending activity for the 2012 calendar year; however, the Bank's CRA performance was not adversely affected during the review period and the Bank has continued to meet the credit needs of the community.

Our analysis took into consideration the economic, financial, and environmental factors that impact the Bank's CRA performance. Demographic information was extracted from the 2010 Census data, and peer data was taken from 2013 aggregate HMDA information (the most recent year available) for HMDA reporting financial institutions that reported lending activity within the AA.

Data Integrity

In order to ensure that Colombo's public lending information was accurate and reliable, we performed a data integrity examination during the third quarter of 2014. During that examination, we evaluated Colombo's processes to ensure the accuracy of collected HMDA data and tested a sample of Colombo's reported HMDA loans. Specifically, we tested the accuracy of HMDA loan data by comparing it against Colombo's loan file documentation. The data integrity examination revealed that Colombo's publicly available HMDA loan data could be relied upon for the purposes of this CRA performance evaluation.

DESCRIPTION OF INSTITUTION

Colombo Bank is a federally chartered stock savings bank with total assets of \$200.8 million, as of December 31, 2014. As of the same date, Colombo had net loans and leases of \$132.6 million, total deposits of \$145.2 million, and tier 1 capital of \$20.1 million. Total assets increased by \$58.3 million, or 40.91%, since June 30, 2008, the date of the financial data used for the previous CRA evaluation. The significant increase in the Bank's asset size is largely attributable to the November 2013 merger.

As of December 31, 2014, Colombo operates five branch offices, including the main office; four branches in the State of Maryland and one full service branch in the District of Columbia (DC). These branches are located in moderate-income CTs. All five branches are open weekdays from 9:00 AM until 5:00 PM. Each of the five branch offices has an ATM. During the evaluation period, Colombo made first and second lien residential conventional mortgage loans to retain in its portfolio, and for sale to investors. Bank management since closed the Bank's residential mortgage loan department in the first quarter of 2014. While the Bank still originates a limited volume of residential mortgage loans, it no longer sells these loans to investors. The Bank also continues to offer commercial and consumer loans including automobile loans. In addition, the Bank offers 24-hour telephone banking, on-line banking, and bill payment services to its customers.

Colombo operates in an intensely competitive market with many competitors consisting of local community banks, branches of larger national banks, and regional lenders. Colombo's main competitors are Wells Fargo Bank, N.A., JP Morgan Chase Bank, N.A., Bank of America, N.A., and SunTrust Bank.

Colombo, formerly Independence Bank, received an “Outstanding” rating under the small bank rating criteria at the prior CRA examination performed by the Office of Thrift Supervision, dated October 14, 2008.

DESCRIPTION OF ASSESSMENT AREA(S)

Colombo defined its AA based on the location of the main and branch offices. The AA includes areas within two contiguous Metropolitan Statistical Areas (MSA): Washington-Arlington-Alexandria (MSA 47900) and Baltimore-Towson, Maryland (MSA 12580), which is part of Consolidated Statistical Area (CSA) 548 (Washington-Baltimore-Northern Virginia). These specific areas are identified as follows:

- Washington-Arlington-Alexandria (MSA 47900):
 - Bethesda-Gaithersburg-Frederick, Maryland metropolitan district (43524):
 - Montgomery County, Maryland;
 - Washington-Arlington-Alexandria, metropolitan district (47894):
 - Washington, District of Columbia;
- Baltimore-Towson, Maryland (MSA 12580):
 - Howard County, Maryland.
 - Baltimore County
 - Baltimore City

The AA consists of entire political subdivisions and does not arbitrarily exclude low- or moderate-income CTs. The AA complies with regulatory requirements.

The following table sets forth certain demographic characteristics of the Bank’s AA:

COLOMBO BANK’S ASSESSMENT AREA – DEMOGRAPHIC INFORMATION						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	863	19.70	27.11	25.38	26.77	1.04
Population by Geography	3,286,575	16.29	27.01	26.98	29.21	0.51
Owner-Occupied Housing by Geography	763,318	8.55	23.67	31.49	36.28	0.01
Business by Geography	320,421	8.88	21.97	26.67	41.63	0.85
Farms by Geography	4,130	4.50	15.67	29.54	50.27	0.02
Family Distribution by Income Level	758,536	25.99	17.40	19.31	37.30	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	329,107	27.26	35.23	24.56	12.95	0.00

Median Family Income	91,139	Median Housing Value	371,451
HUD Adjusted Median Family Income for 2013	95,261	Unemployment Rate	4.5%
Households Below Poverty Level	11%		

(*) The NA category consists of geographies that have not been assigned an income classification. Source: 2010 US Census and 2013 HUD updated MFI; Unemployment Rate – December 2014 Bureau of Labor Statistics

Of the 863 CTs, 170 are low-income geographies, 234 are moderate-income geographies, 219 are middle-income geographies, and 231 are upper-income geographies and 9 geographies that are not assigned an income classification.

The 2010 U.S. Census reported the total population of the AA at 3,286,575. Within the AA, there are 1,266,699 households and 758,536 families. There are 1,401,970 housing units, of which, 54.45% are owner-occupied, 35.91% are rental-occupied, and 9.65% are vacant housing units. Approximately 8.55% of owner-occupied housing is located in low-income geographies, 23.67% in moderate-income geographies, 31.49% in middle-income geographies, and 36.28% in upper-income geographies. The median housing cost is \$371,451. Based on statistics from the National Association of Realtors, the national median sales price for existing single-family homes was 197,400 in 2013. The high cost of living associated with this area makes home ownership difficult, especially for low- and moderate-income individuals.

The 2010 median income for the AA was \$75,862, and the 2013 HUD updated median family income is \$96,437. Approximately 25.99% of families are low-income, 17.40% are moderate-income, 19.31% are middle-income, and 37.30% are upper-income. There are 10.71% of households below the poverty level.

Competition for loans and deposits is strong in this AA. Based on the June 30, 2014 FDIC Summary of Deposit Market Share report, Colombo’s deposit market share within the Washington-Arlington-Alexandria MSA is 0.07%, ranking Colombo 54 out of 87 institutions in the MSA. Colombo’s primary competitors in the Washington-Arlington-Alexandria MSA are E*TRADE (2 offices, 16.80% market share), Wells Fargo, N.A. (166 offices, 12.78 % market share), Bank of America, N.A. (165 offices, 12.42 % market share), Capital One, N.A. (186 offices, 11.33 % market share), and SunTrust Bank (175 offices, 8.96%). Colombo’s deposit market share within Montgomery County is 0.19%, ranking Colombo 26 out of 34 institutions in Montgomery County.

The current local economy is characterized as diversified and stable. Key sectors driving the economy continue to be the federal government, information technology, and life sciences. Some of the major employers in Montgomery County are National Institutes of Health, Adventist Healthcare, Food and Drug Administration, Marriott International, Lockheed Martin Corp., and National Naval Medical Command. Competition for mortgage loans is strong and includes local commercial and savings banks and branches of larger regional and nationwide banks. The Institution Market Share report indicates that Colombo competes with 661 lenders within its AA. The top

five lenders dominate the market with overall market share of approximately 35.93%. The top five lenders are: Wells Fargo Bank, N.A., JP Morgan Chase Bank, N.A., SunTrust Mortgage Inc., Branch Banking and Trust Company, and Bank of America, N.A. Colombo ranks 155 with a market share of 0.05%.

According to the December 2014 Bureau of Labor Statistics data, the non-seasonally adjusted unemployment rate for the Washington-Arlington-Alexandria MSA was 4.5%. The unemployment rate for the Baltimore-Towson Maryland MSA was 5.5%. The unemployment rate for the state of Maryland was also 5.5%. The national unemployment rate was 5.6% as of December 2014.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Colombo's performance under the Lending Test is "Satisfactory." Colombo's quarterly average net loan-to-deposit (LTD) ratio is reasonable. A majority of loans originated were inside the Bank's AA. The distribution of loans reflects a reasonable distribution among individuals of different income levels. The geographic distribution of loans reflects reasonable distribution throughout CTs of different income levels. The following presentation discusses Colombo's performance relative to the performance criteria.

Loan-to-Deposit Ratio

Colombo's LTD ratio is reasonable and reflects satisfactory performance. During the review period, the Bank's quarterly average net loan-to-deposit ratio over the twenty-eight quarters since the last CRA examination was 91.07%. The lowest ratio was 76.13% for the quarter ended September 30, 2011, and its highest ratio was 101.47% for the quarter ending September 30, 2012. The quarterly average net LTD ratio for a custom peer group of four similarly sized and situated banks was 92.42% over the same period. The ratio ranged from a quarterly low of 82.98% to a quarterly high of 107.99% during that time period.

Lending in Assessment Area

During the evaluation period, 60.36% of the number and 63.89% of the dollar amount of total home mortgage loans were originated or purchased within the Bank's AA. The following table compares Colombo's record of HMDA-reportable loan originations inside and outside its AA for the review period.

HMDA-REPORTABLE LENDING ASSESSMENT AREA CONCENTRATION				
	No. of Loans	No. % of Total	\$ Amt. of Loans (000s)	\$ % of Total
INSIDE A.A.	67	60.36%	\$22,500	63.89%
OUTSIDE A.A.	44	39.64%	\$12,715	36.11%
TOTAL	111	100.00%	\$35,215	100.00%

With a majority of lending inside the AA for the review period, Colombo meets the standards for satisfactory performance for lending in the AA.

Lending to Borrowers of Different Incomes

The distribution of home loans to borrowers reflects adequate penetration among borrowers of different income levels considering performance context.

In our analysis, we took into consideration the lack of affordability for a low- or moderate-income family to purchase a home. Based on the 2010 Census data, the median cost of housing is \$371,451. The 2013 HUD updated median family income is \$96,437, which means a low-income family earned less than \$48,269. Additionally, moderate-income families earned at least \$48,269 but less than \$77,150. Therefore, low- and moderate-income borrowers would have difficulty finding affordable housing in the AA. Furthermore, 11% of households in the AA are below the poverty level. The percentage of Colombo’s mortgage lending to low-income borrowers was below peer lending, and far below the demographic percentage at 3.85%. However, Colombo’s lending to moderate-income borrowers was almost commensurate with the peer lending percentage as well as the percentage of moderate-income families within the AA.

The 2013 HMDA aggregate data indicates Colombo ranks 168 out of 411 lenders in the AA with a 0.04% market share in residential lending. Large nationwide banks and mortgage companies dominate the market for this product. These factors affect the Bank’s ability to lend among lower income populations. Based on the foregoing, the examiner concludes that Colombo’s performance with respect to this criterion meets the standards for satisfactory performance

The table below shows the distribution of HMDA loans in the AA among borrowers of different income levels for the period of January 1, 2013, through December 31, 2013, as compared to the percentage of families in each income category as well as the aggregate peer performance in 2013, the most recent year for which data is available.

Colombo Bank’s 2013 HMDA Lending Assessment Area					Demographic	Peer Lending
Income Level of Borrower	Number	No. Pct.	Dollar (000)	\$ Percent	Percent Families	2013 Aggr. HMDA
Low = <50%	2	3.85%	\$264	1.52%	25.99%	9.58%
Moderate = 50-79%	8	15.38%	1,711	9.85%	17.40%	17.21%
Middle = 80-119%	11	21.15%	3,330	19.17%	19.31%	23.33%
Upper = > 120%	31	59.62%	12,067	69.46%	37.30%	49.88%
Total	52	100.00%	\$17,372	100.00%	100.00%	100.00%

Note: Borrower income was not captured for 15 loan totaling \$5,128

Geographic Distribution of Loans

The geographic distribution of loans reflects adequate dispersion throughout CTs of different income levels, and Colombo’s performance meets the standard for satisfactory performance. There were no conspicuous gaps identified within Colombo’s AA.

Colombo’s percentage of loans granted in the low-income CTs was slightly below the percentage of owner-occupied housing units (O.O.H.U) in low- income CTs but was almost commensurate with the peer percentages. The Bank’s level of lending in moderate-income CTs significantly exceeded both the percent of aggregate lending data and the percent of O.O.H.U located in the AA.

The following table illustrates loan originations, categorized by geography income level, that were reported by Colombo during the review period, and compares this activity to the 2013 aggregate lenders. The table also includes a comparison to the percentages of O.O.H.U.s within the AA.

Colombo Bank 2013 HMDA Lending Assessment Area					Demographic	Peer Lending
Income Level of Census Tract	Number	No. Pct.	Dollar (000)	\$ Percent	Percent O.O.H.U.	2013 Aggr. HMDA
Low = <50%	4	5.97%	\$1,055	4.69%	8.55%	6.16%
Moderate = 50-79%	19	28.36%	4,125	18.33%	23.67%	18.10%
Middle = 80-119%	11	16.42%	3,166	14.07%	31.49%	27.84%
Upper = > 120%	33	49.25%	14,154	62.91%	36.29%	47.90%
Total	67	100.00%	\$22,500	100.00%	100.00%	100.00%

Responses to Complaints

No complaints concerning Colombo’s performance in meeting the credit needs of the AA have been received by the OCC or Colombo during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 195.28(c), in determining a Federal savings association’s (FSA) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the FSA, or in any AA by an affiliate whose loans have been considered as part of the FSA’s lending performance.

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