



PUBLIC DISCLOSURE

April 08, 2013

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

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 Saving, FA has a satisfactory record of meeting community credit needs. This conclusion is based on the following:

- The loan-to-deposit ratio for Colonial is more than reasonable and averaged 102.97 percent during the evaluation period.
- When performance context issues are considered, Colonial's efforts to meet the credit needs of its Assessment Areas (AAs) are adequate and meet the standards for satisfactory performance.
- Colonial's distribution of loans in the Tarrant and Johnson Counties AA reflects a reasonable distribution among borrowers of different income levels and businesses of different sizes and meets the standards for satisfactory performance.
- The distribution of loans in the Denton County and Sachse AA reflects a reasonable proportion among borrowers of different income levels and businesses of different sizes and meets the standards for satisfactory performance.
- Colonial's overall distribution of home mortgage products and consumer loans to low- and moderate-income (LMI) families is reasonable when considering performance context.
- Colonial's geographic distribution of loans to low- and moderate- income geographies is reasonable in its defined AAs.
- Colonial meets the standards of satisfactory performance under the Community Development (CD) test. The bank's CD services reflect adequate responsiveness to the needs and opportunities in the AAs. Additionally, CD investments are adequate while CD lending is weak.
- No consumer complaints regarding Colonial's CRA performance were received during this evaluation period.

Scope of Examination

Colonial Savings qualifies as an Intermediate Bank under the CRA regulation and is thus, subject to a Lending Test and 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 community development test evaluates a bank's CD lending, qualified investments, and CD services. The last CRA exam was conducted as of March 31, 2010 and covered the period from January 1, 2007 through December 31, 2009.

At this CRA examination, the evaluation under the Lending Test covers loans originated from January 1, 2010 through December 31, 2012. We assessed performance under the lending test through a review of sampled consumer and commercial loans originated by Colonial. We used Home Mortgage Disclosure Act (HMDA) data for 2010, 2011 and 2012 to review mortgage-lending activities. The Community Development portion of the exam assessed CD activities and loans from April 1, 2010 through March 31, 2012.

Colonial Saving has delineated Tarrant, Johnson and Denton Counties and the city of Sachse as its AA. All of Colonial's branches are located within these areas. Tarrant and Johnson counties are located in the Fort Worth/Arlington Metropolitan Statistical Area (MSA)/Metropolitan Division (MD) and Denton County and Sachse are located in the Dallas/Plano MSA/MD. Therefore, the bank has two delineated AAs. We conducted a full scope review of the lending activities in both AAs.

With the release of the 2010 Census data, the loans extended in 2012 will be presented in the context of this data. Loans extended prior to 2012 will be considered in the context of the 2000 Census data. This Performance Evaluation contains analysis and tables for both periods.

Description of Institution

Colonial Savings is a federally chartered stock saving institution headquartered in Fort Worth, Texas. Colonial was established in 1952 and grew to over \$1 billion in total assets by December 2012. Colonial's primary focus is mortgage lending but it also offers full-service traditional banking products and services. The main office is located at 2626 West Freeway in Fort Worth. In addition to its main office, Colonial operates eight full-service branches located in the north-central Texas communities of Fort Worth, Arlington, Cleburne, Sachse, Colleyville and Lewisville. Colonial also has 23 Mortgage Loan Production Offices (MPO). The MPOs are located primarily in Texas with two in Colorado and one each in Florida, California, Louisiana, Oklahoma and Kansas.

Colonial is primarily a single-family mortgage lender that operates under a mortgage banking concept by selling the majority of its residential mortgages to the secondary market. Colonial National Mortgage, an operating division, operates in ten states, including Texas.

Colonial is a full service financial institution that offers numerous mortgage and consumer loan products, including conventional fixed, adjustable, and blended rate mortgage loans for the construction, purchase, or refinance of one- to four-family properties with standard loan-to-value ratios. Home improvement and home equity loans are also available. Loans with higher loan-to-value ratios are granted with private mortgage insurance or through special loan programs. Colonial offers government-insured products, such as Federal Housing Authority (FHA) and Veterans Administration loans, as well as various state- and city-sponsored special loan programs. The institution also originates consumer loans, including personal, automobile, boat, and recreational vehicle loans. Colonial originates small business loans, mostly to accommodate existing customers.

As of December 31, 2012, total assets were approximately \$1,046 million and consisted mainly of mortgage loans (74.0 percent). Table 1 reveals the dollar amount, percent of loans and percent of total assets for each loan category as of December 31, 2012.

Loan Category	Amount (\$000's)	Percent of Total Loans	Percent of Total Assets
Mortgage Loans	\$775,325	99.0	74.0
Non-Mortgage Loans	\$ 8,427	1.0	0.8
Total	\$783,752	100.0	74.8

The main office and the Colleyville branch are located in upper-income census tracts. The Arlington, Sachse, Fort Worth - Hulen, Fort Worth - North Beach and Lewisville branches are all located in middle-income census tracts. The Cleburne branch is located in a low-income census tract. Colonial has not closed any branches during this evaluation period. In 2011, the Sachse and Fort Worth – Hulen branches were relocated and a new branch was opened in Fort Worth on North Beach. ATM facilities are available at the Sachse and North Beach branches.

Colonial's identified assessment area is highly competitive. Competition from other financial institutions is above-average and increasing. The primary competition consists of other state and national financial institutions, mortgage banking companies, credit unions, and branch facilities of large regional and national institutions. Much of the competition is highly visible and offers very competitive rates on loans and deposits.

Colonial is 100 percent owned by Colonial Holding Company. Colonial has no operating subsidiaries. The holding company's activities do not influence the bank's CRA rating. There are no legal, financial or other factors impeding the bank's ability to help meet the credit and community development needs in its AA.

Colonial received an overall rating of "Satisfactory" during its previous CRA examination dated March 2010, using Intermediate Small Bank CRA Procedures.

Description of Assessment Area(s)

Colonial has designated Tarrant, Johnson, and Denton Counties, and the city of Sachse in Dallas County, as its assessment area. All eight of the institution's branches are located within these areas. Tarrant and Johnson Counties are two of four counties that comprise the Fort Worth-Arlington, TX MSA/MD. Denton and Dallas Counties are two of eight counties that comprise the Dallas-Plano-Irving, TX MSA/MD. When combined, these two metropolitan divisions comprise the Dallas-Fort Worth-Arlington, TX MSA.

For purposes of this Performance Evaluation, we will consider Tarrant and Johnson counties located in the Fort-Arlington MSA/MD as one AA and Denton County and the city of Sachse located in the Dallas-Plano-Irving MSA/MD as a separate AA. The demographic information is different for each MD. The designation of these assessment areas is reasonable based on the institution's office locations. The AAs meet the requirements of the CRA regulation and do not arbitrarily exclude low- or moderate-income geographies.

Tarrant and Johnson Counties Assessment Area

Colonial has designated Tarrant and Johnson Counties as its AA. This assessment area is part of the Fort Worth/Arlington MSA/MD. This AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income geographies. Specific demographic and economic data for this area is listed below:

Table 2-Demographic Data Tarrant & Johnson Counties Assessment Area		
Demographic Data	2000 Census	2010 Census
<i>Population Data</i>		
Population	1,573,030	1,959,968
Total Families	406,198	478,956
Total Households	577,645	682,943
<i>Housing Data</i>		
1-4 Family Units	478,323	597,756
Multi-family Units	133,776	153,826
% Owner-Occupied Units	58.68%	58.45%
% Rental-Occupied Units	35.67%	32.41%
% Vacant Housing Units	5.65%	9.13%
<i>Median Family Income (MFI)</i>		
MFI for Assessment Area	\$57,298	\$70,587
HUD Adjusted MFI	\$68,200	\$69,200
<i>Economic Indicators</i>		
Unemployment Rate – Tarrant Co.		* 7.80%
Unemployment Rate – Johnson Co.		* 7.60%
Median Housing Value	\$99,729	\$144,922

Derived from the 2000 & 2010 Census Bureau data and 2011 & 2012 HUD data.

Tarrant County is an urban county located in the north central part of Texas. Fort Worth is the county seat and the largest city in the county. Tarrant County encompasses 864 square miles. Johnson County is adjacent to Tarrant County and is also located in north central Texas. Cleburne, the county seat, is thirty-five miles southwest of Fort Worth. The county comprises 740 square miles.

The Tarrant and Johnson County economies are well-diversified with a variety of industries and businesses. Major industries and employers include aviation, technology, railroad, defense, medical, and retail. Despite the troubling economic conditions nationwide, Fort Worth and Tarrant County have remained one of the better positioned markets in the country.

Based on 2010 Census demographic data, the AA has a population of 1.9 million. There are 751,582 housing units in the AA, with 58 percent owner-occupied, 32 percent

renter-occupied and 9 percent vacant. Approximately 6 percent of the households in the AA are considered low-income. Moderate-income households approximate 26 percent of the population, middle-income families total 40 percent and upper-income families make up 28 percent of the population. There are 223 thousand businesses in the AA. Of these businesses, 71 percent reported gross annual revenue less than \$1 million and 3 percent reported gross annual revenue equal to or greater than \$1 million. Because reporting is voluntary, 26 percent of the businesses did not report revenues.

Community contacts conducted in connection with this examination and prior interviews disclosed that there are no significant gaps in local financial institutions meeting the credit needs of the AA. These community contacts revealed numerous opportunities that exist in the bank's AAs to participate in CD lending, investment, and service activities. 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.

Colonial's identified AA of Tarrant and Johnson Counties 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. Much of the competition is highly visible and offers very competitive rates on loans and deposits. Competition for CD lending and investments is also high.

Denton County and City of Sachse Assessment Area

Colonial has designated Denton County and the City of Sachse as an AA. This assessment area is part of the Dallas/Plano MSA/MD. This AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income geographies. Specific demographic and economic data for this area is listed below:

Table 2-Demographic Data		
Denton County and City of Sachse, Texas Assessment Area		
Demographic Data	2000 Census	2010 Census
<i>Population Data</i>		
Population	657,911	904,894
Total Families	170,439	216,487
Total Households	235,482	301,974
<i>Housing Data</i>		
1-4 Family Units	191,622	251,500
Multi-family Units	54,943	74,199
% Owner-Occupied Units	62.07%	61.41%
% Rental-Occupied Units	33.33%	31.30%
% Vacant Housing Units	4.61%	7.28%
<i>Median Family Income (MFI)</i>		
MFI for Assessment Area	\$65,930	\$82,479
HUD Adjusted MFI	\$69,600	\$70,600
<i>Economic Indicators</i>		
Unemployment Rate – Denton Co.		* 7.00%
Median Housing Value	\$115,435	\$168,474

Derived from the 2000 & 2010 Census Bureau data and 2011 & 2012 HUD data.

Denton County is an urban county located in the north central part of Texas, just north of the Dallas – Fort Worth metroplex. Denton County is one of the fastest growing counties in the US. The City of Denton is the county seat and the largest city in the county. Denton County encompasses 953 square miles. The City Sachse is located in the northeast corner of Dallas County.

The economies of Denton County and Sachse are well-diversified with a variety of industries and businesses. Major industries and employers include education, medical, manufacturing and retail.

Based on 2010 Census demographic data, the AA has a population of 904 thousand. The AA has 325,699 housing units, with 61 percent owner-occupied, 31 percent renter-occupied and 7 percent vacant. Approximately 3 percent of the households in the AA are considered low-income. Moderate-income households approximate 18 percent of the population, middle-income households total 39 percent and upper-income

households make up 41 percent of the population. There are 95 thousand businesses in the AA. Of these businesses, 74 percent reported gross annual revenue less than \$1 million and 2 percent reported gross annual revenue equal to or greater than \$1 million. Because reporting is voluntary, 24 percent of the businesses did not report revenues.

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 Denton and Sachse 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. Much of the competition is highly visible and offers very competitive rates on loans and deposits. Competition for CD lending and investments is high.

Conclusions with Respect to Performance Tests

LENDING TEST

Colonial's performance in meeting the credit needs of its AAs is satisfactory. Our conclusion is based on a more than reasonable loan-to-deposit ratio, an adequate lending performance within the bank's AAs considering certain performance context factors, a reasonable borrower distribution of loans within the bank's AAs, and a reasonable geographic distribution of loans within the AAs.

To assess Colonial's performance under the lending test, we reviewed the bank's residential real estate mortgage lending activity for the years 2010, 2011 and 2012 using loan data as reported under HMDA. We also reviewed a random sample of loans from the commercial and consumer loan portfolios.

Loan to Deposit Ratio

Colonial's loan-to-deposit ratio is ***more than reasonable*** given the bank's size, financial condition, local competition, and AA credit needs. This determination is based on the quarterly average loan-to-deposit ratio from March 31, 2010 through December 31, 2012. During the evaluation period, Colonial's loan-to-deposit ratio ranged from a low of 89.11 percent to a high of 110.08 percent with an average of 102.97 percent. The bank's loan-to-deposit ratio exceeded peer banks. The loan-to-deposit average ratio for peer banks for this same time period ranged from 45.12 percent to 85.26 percent.

Lending in Assessment Area

When performance context issues are considered, Colonial Savings' efforts to meet the credit needs of its AAs are adequate and meet the standards for satisfactory performance. If considered solely on the basis of lending volume within its AAs, the bank's lending performance would not meet the standards for satisfactory performance, as a substantial part of the bank's loans were made outside the bank's AAs. As depicted in the table below, only 13.93 percent of the number of loans and 26.87 percent of the dollar amount of loans originated during the evaluation period were originated within the bank's AAs. However, Colonial Savings has a substantial mortgage banking operation and functions as a non-traditional institution, serving a broader retail market primarily through its non-branch delivery avenues.

Colonial's primary business comprises originating retail, residential mortgages for sale into the secondary market in liaison with loan correspondents nationwide while retaining

the servicing rights to those loans. The bank's mortgage banking production division operates out of 23 mortgage production offices in various states, 16 of which are located in the state of Texas. Given the bank's mode of operations, evaluating its CRA performance record based solely on the lending volume within its delineated AAs would not capture, in entirety, this non-traditional financial institution's full performance in meeting the credit needs of the areas it services.

As such, we took into consideration Colonial's lending performance within the state of Texas, where the majority of its mortgage production offices are located. In 2011, 48.40 percent of all loan originations were made in Texas and in 2012, 48.23 percent of the bank's loans were made in Texas. The increase in lending volume when the bank's lending activity is expanded to include the entire state of Texas, where the bank has a substantial portion of its MPOs, lends a favorable impact to the assessment of the bank's performance in meeting the credit needs of the areas it services.

Table 1 - Lending in AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
<i>2010 -2011 Data</i>										
Home Purchase	1,580	14.90	9,023	85.10	10,603	240,519	13.90	1,495,013	86.10	1,735,532
Home Refinance	1,998	13.50	12,777	86.50	14,775	309,794	12.10	2,245,584	87.90	2,555,378
General Consumer	25	75.76	8	24.24	33	194,570	67.12	95,301	33.88	289,871
Commercial Loans	9	69.20	4	30.80	13	1,210,180	55.90	956,200	44.10	2,166,380
<u>2010 -2011 Totals</u>	3,612	14.21	21,812	85.79	25,424	1,954,750	28.97	4,792,501	71.03	6,747,251
<i>2012 Data</i>										
Home Purchase	773	13.6	4,917	86.4	5,690	127,786	13.0	858,303	87.0	986,089
Home Refinance	1,631	13.4	10,587	86.6	12,218	255,466	11.9	1,897,264	88.13	2,152,730

General Consumer	23	75.00	7	25.00	30	153,946	69.78	66,674	30.22	220,620
Commercial Loans	6	75.00	2	25.00	8	340,342	78.50	93,000	21.50	433,342
<u>2012 Totals</u>	2,433	13.56	15,513	86.44	17,946	877,540	23.14	2,915,241	76.86	3,792,781
Grand Total Reviewed	6,045	13.93	37,325	86.07	43,370	2,832,290	26.87	7,707,742	73.13	10,540,032

CRA Rating for the Tarrant and Johnson Counties AA

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

Colonial’s distribution of loans in the Tarrant and Johnson counties AA reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes and meets the standards for satisfactory performance.

Residential Real Estate Mortgage Loan Products

Colonial's overall distribution of residential real estate loan products to families of different incomes is reasonable. For our analysis, we compared the bank’s distribution of loans to the low-, moderate-, middle- and upper-income families to the distribution of families within the respective income bracket levels in the AA.

The distribution of residential mortgage loan products to low-income families reflects a poor penetration. Colonial's distribution of residential loan mortgage products to low-income families is less than the percentage of low-income families in the AA. The financial incapacity to afford a home and the lack of established creditworthiness sufficient to qualify for home mortgage loans remain limiting factors to home ownership amongst low-income families. As such, renting remains the most affordable option for housing amongst families in this income bracket. Colonial does offer several residential mortgage loan programs within the AA to assist LMI families in financing home purchases. These programs are outlined in detail in the ***Community Development and Services*** section. In addition, the bank’s distribution of home purchase and home refinance loans to low-income borrowers were comparable to the volume of aggregate loans made to low-income borrowers by all HMDA lenders in the AA.

The bank’s distribution of home purchase loans to moderate-income families is excellent as the percentage of loans made to families in this income bracket exceeds the percentage of moderate-income families in the AA. The lending penetration of home

refinance loans to moderate-income families is satisfactory as the level of lending is comparable to the distribution of moderate-income families in the AA.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Tarrant & Johnson Counties AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
<u>2010 -2011 Data</u>								
Home Purchase	19.49	8.16	18.62	23.20	21.70	22.99	40.18	45.65
Home Refinance	19.49	3.48	18.62	11.67	21.70	24.24	40.18	60.61
<u>2012 Data</u>								
Home Purchase	21.91	6.50	17.56	21.61	19.50	24.67	41.03	47.23
Home Refinance	21.91	3.92	17.56	16.05	19.50	25.21	41.03	54.82

Source: 2010 & 2011 HMDA Loan Data & US Census Reports for 200 and 2010

Consumer Loans

Colonial’s overall distribution of consumer loans to households of different incomes reflects a reasonable distribution. Specifically, Colonial’s lending penetration to low- and moderate-income households is excellent. As reflected in the table below, the overall percentage of Colonial’s loans made to households in these income-brackets exceeds the percentage of low- and moderate-income households in the AA.

Table 2B - Borrower Distribution of Consumer Loans in Tarrant & Johnson Counties 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
<u>2010 & 2011 Data</u>								
Consumer Loans	21.26	30.00	17.67	30.00	20.00	20.00	41.07	20.00
<u>2012 Data</u>								
Consumer Loans	22.94	20.00	17.07	25.00	18.49	40.00	41.50	15.00

Source: Random Loan Sample

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. As depicted in the table

below, the distribution of the loans in our sample demonstrates the bank's satisfactory efforts to lend to small businesses.

Table 2C - Distribution of Loans to Businesses in the Tarrant and Johnson Counties 's AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
<u>2010 -2011 Data</u>				
% of AA Businesses	67.29%	2.16%	30.55%	100%
% of Bank Loans in AA by #	85.29%	14.71%	0%	100%
% of Bank Loans in AA by \$	70.07%	29.93%	0%	100%
<u>2012 Data</u>				
% of AA Businesses	71.15%	2.82%	26.03%	100%
% of Bank Loans in AA by #	60.00%	0.00%	40.00%	100%
% of Bank Loans in AA by \$	35.37%	0.00%	64.63%	100%

Source: Loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans in Tarrant & Johnson Counties AA

Colonial's geographic distribution of loans to low- and moderate- income geographies reflects reasonable dispersion in the Tarrant and Johnson Counties AA. The bank's lending by geography is reasonable and there were no conspicuous gaps in lending throughout the AA. The tables below illustrate the percent of the number of residential mortgage loans originated by Colonial to different income level CTs.

Residential Real Estate Loans

The geographic distribution of residential real estate loans within the AA is reasonable considering the low level of owner-occupied housing in the low-income CTs and the resulting limited residential mortgage lending opportunities within these income tracts. As reflected in the table below, only 3.48% and 3.86% of housing in the low-income tracts were owner-occupied for the years 2010 – 2011 and 2012, respectively. Colonial's geographic distribution of home purchase loans within the moderate-income tracts is reasonable, as the distribution of loans is somewhat comparable to the distribution of moderate-income families in the AA.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Tarrant & Johnson Counties AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
<u>2010 & 2011 Data</u>								
Home Purchase	3.48	0.36	19.52	11.45	40.41	42.40	36.59	45.80
Home Refinance	3.48	0.13	19.52	6.34	40.41	37.92	36.59	55.61
<u>2012 Data</u>								
Home Purchase	3.86	0.88	20.64	11.07	39.42	39.02	36.08	49.03
Home Refinance	3.86	0.50	20.64	7.38	39.42	39.65	36.08	52.47

Source: Reported HMDA Loan Data & US Census Reports 2000 & 2010

Consumer Loans

The geographic distribution of consumer loans to different income tracts represents a reasonable distribution. There was no lending penetration to low-income households in 2011. However, the lending penetration to moderate-income households meets the standards for satisfactory performance, as it slightly exceeds the percentage of moderate-income households in the AA. The distribution of consumer loans in 2012 was comparable to the distributions of low- and moderate- income households in the AA.

Table 3B - Geographic Distribution of Consumer Loans in Tarrant & Johnson Counties 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
<u>2010 & 2011 Data</u>								
Consumer Loans	4.98	0.00	24.41	25.00	41.42	35.00	29.20	45.00
<u>2012 Data</u>								
Consumer Loans	6.04	5.00	26.32	20.00	39.69	45.00	27.95	30.00

Random Loan Sample

Commercial Loans

Colonial's geographic distribution of commercial loans to the different income tracts is reasonable and meets the standards for satisfactory performance. The distribution of commercial loans originated in the low-income tracts and those originated in moderate-income tracts in 2010 and 2011 is excellent and reflects a pattern indicative of an institution seeking to serve the commercial credit needs of its AAs. There was no penetration in lending to low-income tracts in 2012.

Table 3A - Geographic Distribution of Business Loans in Tarrant & Johnson Counties 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
<u>2010 - 2011 Data</u>								
	2.72	28.6	19.36	28.6	37.80	0.00	40.13	42.86%
<u>2012 Data</u>								
	4.86	0.00	21.44	20.00	35.75	40.00	37.79	40.00

Source: Loan sample; Dunn and Bradstreet data.

CRA Rating for the in Denton County and the city of Sachse AA

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

The distribution of loans reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes in the Denton County and Sachse AA and meets the standards for satisfactory performance.

Real Estate Mortgage Loan Products

Colonial's overall distribution of residential real estate loan products to families of different incomes is reasonable when considered in the overall performance context.

The distribution of residential mortgage loan products to low-income families in this AA reflects a poor lending penetration. Colonial's distribution of residential loan mortgage products to low-income families is less than the percentage of low-income families in the AA. As discussed in the evaluation of Colonial's lending performance within its other AA, the inability to afford a home and credit qualification problems remain major barriers to low-income families owning their own homes. See the **Community Development and Services** section for programs that Colonial operates to encourage ownership within the low- and moderate- income families.

The bank's distribution of home purchase loans to moderate-income families is excellent, as the percentage of loans made to families in this income bracket exceeds percentage of moderate-income families in the AA. The lending penetration of home refinance loans to moderate-income families weak as the level of lending is lower than the distribution of moderate-income families in the AA.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Denton County and portion of Dallas County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
<u>2010 -2011 Data</u>								
Home Purchase	14.40	7.69	16.86	20.28	22.45	17.02	46.29	55.01
Home Refinance	14.40	1.08	16.86	9.74	22.45	22.08	46.29	67.10
<u>2012 Data</u>								
Home Purchase	16.19	3.59	15.59	28.21	19.91	16.92	48.31	51.28
Home Refinance	16.19	3.26	15.59	9.77	19.91	20.30	48.31	66.67

Source: 2010 & 2011 HMDA Loan Data & US Census Reports

Consumer Loans

Colonial’s overall distribution of consumer loans to households of different incomes reflects a reasonable distribution. As reflected in the table below, the overall percentage of the loans made to households in these income brackets is comparable to the percentage of low- and moderate-income households in the AA. Consumer lending to moderate-income families was especially strong in 2012.

Table 2B - Borrower Distribution of Consumer Loans in Denton County and portion of Dallas County 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
<u>2010 & 2011 Data</u>								
Consumer Loans	16.71	11.10	16.25	11.10	19.58	22.20	47.46	55.60
<u>2012 Data</u>								
Consumer Loans	18.13	14.30	15.31	57.10	18.38	14.3	48.18	14.3

Random Loan Sample

Commercial Loans

There were no commercial loans made in the Denton County and Sachse AA during the evaluation period.

Geographic Distribution of Loans in the Denton County and city of Sachse AA

Colonial’s geographic distribution of loans to low- and moderate- income geographies reflects reasonable dispersion in the Denton County and city of Sachse AA. The bank’s lending by geography is reasonable and there were no conspicuous gaps in lending throughout the AA. The tables below illustrate the percent of the number of residential mortgage loans originated by Colonial to different income level CTs.

Residential Real Estate Loans

The geographic distribution of residential real estate loans within the AA is reasonable considering the very low level of owner-occupied housing in the low-income CTs and the resulting limited residential mortgage lending opportunities within this income tract. As reflected in the table below, only 0.16% and 0.52% of housing in the low-income tracts were owner-occupied for the years 2010 – 2011 and 2012, respectively. Colonial did have a strong distribution of home purchase loans in the low-income CTs in 2012.

The geographic distribution of home purchase and home refinance loans within the moderate-income tracts is weak. However, there is low demand for refinancing amongst families within this income bracket, as many have just purchased their first home. This is a performance context factor that should be considered.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Tarrant & Johnson Counties AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
<u>2010 & 2011 Data</u>								
Home Purchase	0.16	0.00	9.04	2.16	43.70	40.26	47.11	57.58
Home Refinance	0.16	0.00	9.04	2.20	43.70	30.40	47.11	67.40
<u>2012 Data</u>								
Home Purchase	0.52	0.49	10.96	2.94	37.21	26.47	51.59	70.10
Home Refinance	0.52	0.00	10.69	4.11	37.21	24.66	51.59	71.23

Source: 2010 & 2011 HMDA Loan Data & US Census Reports

Consumer Loans

The geographic distribution of consumer loans to different income tracts is reasonable. There is no lending penetration to low-income households. However, the lending penetration to moderate-income households represents a reasonable dispersion, as it is comparable to the percentage of moderate-income households in the AA.

Table 3B - Geographic Distribution of Consumer Loans in Denton County and portion of Dallas County 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
<u>2010 & 2011 Data</u>								
Consumer Loans	2.09	0.00	12.79	11.1	47.28	44.4	37.84	44.4
<u>2012 Data</u>								
Consumer Loans	2.89	0.00	17.89	14.3	38.71	57.1	40.51	28.6

2010 & 2011 HMDA Loan Data & Random Loan Sample

Commercial Loans

There were no commercial loans made in the Denton County and Sachse AA during the evaluation period.

Responses to Complaints

We reviewed the complaints received by the bank and complaints received by our office. We did not identify any complaints relating to CRA.

COMMUNITY DEVELOPMENT TEST

Colonial **meets** the standards of satisfactory performance under the CD Test.

Our conclusion is based on the thrift's performance context and the full scope review of the Tarrant County and Johnson County AA, which accounts for 91 percent of Colonial's deposits, all of the new CD lending, most of the CD investments, essentially all of the cash donations, and all of the qualifying employee service hours. For purposes of the CD analysis, we performed a limited scope review of community development practices in the Denton County and City of Sachse assessment area based on its limited performance data.

Colonial demonstrates an adequate responsiveness to the CD needs of the AA through the use of CD loans, qualified investments and CD services, considering the thrift's capacity, and the need and availability of such opportunities in the AA. The evaluation period starts from the ending date of the last CRA evaluation period to the start date of the current CRA examination. This evaluation period is March 31, 2010 through March 31, 2013.

Number and Amount of Community Development Loans

Considering the needs and opportunities in the AA, and Colonial's performance context and capacity, the thrift's performance is weak relative to CD lending.

During the evaluation period, Colonial originated two CD loans in the amount of \$363,000. One of the loans is for a start-up franchise restaurant that will provide permanent hourly wage jobs predominately to area LMI residents. The restaurant is located in a moderate-income census tract in Tarrant County. Its establishment promotes economic development in the geographic area. The other loan is to a non-profit organization that leads, coordinates and develops strategies and resources to prevent and end 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 LMI individuals and families as well as promoting affordable housing.

Number and Amount of Qualified Investments

Considering the needs and opportunities in the AAs, and Colonial's performance context and capacity, the thrift's performance is adequate for qualified investments.

Although Colonial did not purchase any qualified debt or equity investments during the evaluation period, it did continue its \$2.5 million equity investment in the CRA Qualified Investment Fund (Fund) made in a prior review period. The Fund purchases and holds CRA-qualifying investments in the purchasing institution's assessment area. Colonial's investment is carried at \$2.6 million at December 31, 2012 and consists of the following:

- an apartment complex with subsidized rents located in a low income census tract in Forth Worth (\$750,000);
- a Section 8 assisted apartment complex in a Fort Worth low income census tract (\$402,000);
- an Arlington grocery store in a moderate income census tract (\$88,000) that provides permanent employment for two workers and serves the local community; and
- 11 residential loans to moderate income families, six in Tarrant County and five in Denton County (\$1,330,000).

Colonial continues to hold four residential lots as part of a CRA project of a local university. The lots are located in a low-income Fort Worth neighborhood and have a book value of \$7,000 as of December 31, 2012.

Other qualified investments (8) totaling \$92,000 include donations and contributions to organizations in the AAs that promote affordable housing. Most notable is \$76,000 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 LMI individuals. Colonial makes its donations in accordance with its stated goals of adequately meeting housing needs and providing banking services within its assessment areas.

Extent to Which the Bank Provides Community Development Services

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.

The branch system is the primary delivery system for retail banking services and is supplemented by two ATMs located at the Sachse and North Beach branch sites. During the evaluation period, Colonial relocated three branches and opened a fourth branch. The Hurst branch relocated to Colleyville due to highway construction, the Overton Ridge branch in Fort Worth moved to Oakmont Boulevard (both locations are in the Hulen area), and the Garland branch relocated to Sachse. In October 2012, Colonial opened a branch office on North Beach Street in Fort Worth. Five of the eight branches are located in middle-income census tracts, two in upper-income areas and one in a low-income area. 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. The relocation of branches during this evaluation period did not change the income distribution of the branches.

Banking hours provide adequate accessibility throughout the AAs. All locations maintain standard banking hours Monday through Friday with extended lobby hours on Friday. The drive-through lanes at five of the eight branches are open Saturday as are two of the lobbies.

Colonial's banking programs and hours allow the thrift to deliver needed banking and credit services to LMI areas and individuals in the AA.

- 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 LMI individuals. This account only requires \$100 opening deposit. The account comes with free ATM access at Colonial's two 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 Xpress allows small businesses to scan checks for electronic deposit from their place of business.
- 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.
- Matriculated identification cards are allowed by Colonial to accommodate Mexican citizens working in the U.S. and in need of a U.S. bank account. Many banks in the AAs will not open accounts using this card; however, Colonial has performed the due diligence review so that they may safely offer this service with low risk to the thrift. 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 LMI areas.
- Personal Visa and MasterCard credit cards are available through Colonial.
- Business Visa credit cards are available through Colonial.
- SBA loans to small businesses.
- Consumer loans, loans on deposits, student loans and residential mortgage loans.

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 thrift is responsive to the needs of LMI 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 LMI residents. One Colonial officer volunteers 25 hours per month at a start-up Hispanic credit union to provide financial counseling to staff and customers. During the 15 months ended March 31, 2013, Colonial's management and personnel provided a total of 2,400 hours of qualifying CD service that benefitted LMI individuals and families in the AA.

Colonial offers several residential mortgage loan programs within the AAs to assist LMI families in financing home purchases. During the review period, Colonial participated in

two programs specifically designed to either finance or provide a matching grant to subsidize the down payment and closing costs for first time homebuyers. Colonial was an approved lender under the Texas Department of Housing and Community Affairs Mortgage Revenue Bond Program No. 77. Using federal grant funds, this program allowed the borrower to finance the down payment and closing costs through a second lien with a zero percent interest rate and a 30-year term. The second lien was capped at five percent of the first mortgage loan. Under this program, Colonial originated 21 FHA loans in Texas and Oklahoma totaling \$2.4 million. These loans are reported on the HMDA register and are included in the tables contained in this Performance Evaluation.

The second program was the under 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 LMI families). The thrift 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 \$117,700 and assisted 22 borrowers. The related loans are reported on the HMDA register and are included in the tables contained in this Performance Evaluation.

Responsiveness to Community Development Needs

The volume and responsiveness of Colonial to the CD needs of the AA 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 LMI 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.

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