



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

June 20, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Arundel Federal Savings Bank

Charter Number 702349

655 Crain Highway, SE Glen Burnie, MD 21061

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 Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors supporting the institution's rating are:

- The Bank's quarterly average net loan-to-deposit ratio is reasonable;
- Lending within its assessment area (AA) is adequate given performance context factors;
- The borrower distribution of loans reflects a reasonable distribution among individuals of different income levels;
- The geographic distribution of loans reflects reasonable dispersion to low- and moderate-income geographies;
- The Bank demonstrates adequate responsiveness to community development needs within the assessment areas.

Scope of Examination

Arundel Federal Savings Bank (AFSB) was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and a community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and community development services.

The evaluation period for the Lending Test covers the bank's performance from January 1, 2014 through December 31, 2015. The evaluation period for the community development test is from February 19, 2013, the date of the last CRA Evaluation, through June 20, 2016.

AFSB's primary loan product based on originations and purchases during the evaluation period is residential mortgages. Residential loans represent 78 percent of the Bank's originations and purchases by number and 74 percent of the originations and purchases by dollar volume during the evaluation period. This evaluation considered AFSB's HMDA-reportable loans (home purchase, home refinance and home improvement) for the calendar years 2014 and 2015.

In order to ensure that AFSB's record of originating residential mortgage loans was accurate and reliable, we analyzed loan data AFSB collected and reported in

accordance with the HMDA requirements. During the data integrity examination, we evaluated AFSB processes to ensure the accuracy of collected HMDA data and tested a sample of AFSB's reported HMDA loans. Specifically, we tested the accuracy of HMDA loan data by comparing it against AFSB's loan file documentation. The data integrity examination revealed that AFSB's publicly available HMDA loan data could be relied upon for the purposes of this CRA evaluation. Community development loans, investments and services submitted by Bank management were also verified to ensure that they met the regulatory definition for community development.

Description of Institution

Arundel Federal Savings Bank, established in 1906, is an intrastate federally chartered mutual savings bank headquartered in Glen Burnie, Maryland. The Bank has one wholly owned operating subsidiary, Arundel Service Corporation of Maryland. This subsidiary was formed to operate an insurance agency. The subsidiary had no activity during the evaluation period, and subsidiary activity was not considered in this evaluation.

As of June 20, 2016, AFSB operates five full service branches in Anne Arundel County and one full service branch in Baltimore City. All of the branches are located within the Baltimore-Towson, Maryland (MD) Metropolitan Statistical Area (MSA). The branches in Anne Arundel County are open 9:00AM to 3:00PM Monday through Thursday and 9:00AM to 6:00PM on Friday. Four of the branches are open from 9:00AM to 12:00PM on Saturday. Based on the 2010 U.S. Census data, the branch in Baltimore City is located in a low-income geography. The Baltimore City branch is open Monday, Wednesday, Thursday, and Friday from 9:00AM to 3:00PM and Tuesday from 9:00AM to 6:00PM. Each branch has an automated teller machine (ATM) and drive up facilities. There were no branches opened or closed and there were no mergers or acquisitions during the evaluation period.

AFSB offers a variety of products and services typical of a traditional savings bank, concentrating primarily on residential mortgage lending and consumer deposit accounts. The Bank offers a limited selection of business credit and deposit products. Some of AFSB's products include personal and business checking accounts, savings, certificates of deposit, Individual Retirement Accounts, conventional mortgages, lines of credit, and personal loans. Services offered include safe deposit boxes, internet banking, telephone banking, and credit and investment counseling. Conservative underwriting standards are applied in the residential mortgage lending process as loans are originated exclusively to hold in the Bank's portfolio.

As of December 31, 2015, AFSB reported total assets of \$459.1 million, net loans and leases of \$273.4 million, total deposits of \$395 million and Tier One Capital of \$61.8 million. The loan portfolio is comprised of 99.94 percent of residential real estate loans.

There are no financial or legal impediments to hinder AFSB's ability to help meet the credit needs of the communities it services. AFSB received a "Satisfactory" rating under the "Intermediate Small Bank" rating criteria at the previous CRA evaluation, dated February 19, 2013.

Description of Assessment Area(S)

AFSB has one assessment area (AA) located within the Baltimore-Towson, Maryland (MD) Metropolitan Statistical Area (MSA). AFSB designated all of the census tracts in Anne Arundel County and 4 of the 200 census tracts in Baltimore City as its AA. Due to geographical barriers, the Bank did not include all of the census tracts in Baltimore City. AFSB's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

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

Table 1-Demographic Information for Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	108	2.78	10.19	38.89	45.37	2.78
Population by Geography	551,899	2.58	8.24	39.53	48.79	0.86
Owner-Occupied Housing by Geography	150,432	1.33	4.66	39.41	54.60	0.00
Business by Geography	40,965	1.40	3.66	37.90	56.55	0.50
Farms by Geography	863	0.46	1.97	34.30	63.27	0.00
Family Distribution by Income Level	139,513	14.48	15.84	20.98	48.70	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	42,302	5.20	16.04	45.31	33.45	0.00

Median Family Income	81,788	Median Housing Value	373,595
HUD Adjusted Median Family Income for 2015	89,600	Unemployment Rate (2010 US Census)	2.96%
Households Below Poverty Level	5.30%		

(*) The NA category consists of geographies that have not been assigned an income classification. Source: 2010 US Census and 2015 HUD updated MFI.

Of the 108 census tracts, 3 are low-income geographies, 10 are moderate-income geographies, 39 are middle-income geographies, and 45 are upper-income geographies and 3 have not been assigned an income classification.

Based on statistics from the National Association of Realtors, the national median sales price for existing single-family homes was 222,400 in 2015. The high cost of living associated with this area makes home ownership difficult, especially for LMI individuals. The 2010 median income for this AA was \$98,477, and the 2015 HUD updated median family income is \$89,600. Approximately 14.48 percent of families are low-income, 15.84 percent are moderate-income, 20.98 percent are middle-income, and 48.70 percent are upper-income. There are 5.30 percent of households below the poverty level.

Competition for loans and deposits is strong in this AA. Based on the June 30, 2015 FDIC Summary of Deposit Market Share report, AFSB's deposit market share within the Baltimore-Columbia-Towson MD MSA is 0.61percent, ranking AFSB 17 out of 65 institutions in the MSA. AFSB's primary competitors are: Bank of America, N.A. (85 offices, 27.11 percent market share), M&T Trust Company (100 offices, 21.66 percent market share), PNC Bank, N. A. (97 offices, 10.88 percent market share, Wells Fargo Bank, N.A. (60 offices, 9.43 percent market share). and Branch Banking and Trust Company (61 offices, 5.92 percent market share).

Competition for mortgage loans is strong and includes local commercial and savings banks and branches of larger regional and nationwide banks. Based upon the most recent 2014 Peer Mortgage Data, there were 425 lending institutions within AFSB's AA competing for mortgage applications. The top five lenders dominate the market with overall market share of approximately 30.3 percent. The top five lenders are Wells Fargo Bank, N.A., Branch Banking & Trust Company, First Home Mortgage, Quicken Loans, and JP Morgan Chase Bank, N.A. AFSB ranks 68th with a market share of 0.32 percent. The demographics of low- and moderate-income borrowers make it difficult to satisfy all of the CRA needs of all of the various banks within the AA, due to the large market share of the nationwide and regional banks.

AFSB's AA is a very diverse area that includes both urban and suburban areas, and it is primarily a higher income area with pockets of low-income areas. Anne Arundel County is a suburban area in close proximity to the Washington, DC area. Many residents in

Anne Arundel County commute to the DC area for work. Housing in Anne Arundel County is expensive and housing stock for low- and moderate-income people is limited. In particular, the Severn and Hanover areas have higher income households and small businesses are growing in these areas. Housing in the Bank's four Baltimore City geographies is very limited. Three of the four census tracts in Baltimore City are designated as low-income and one has not been assigned an income classification. There are only 2,006 owner-occupied housing units in these four census tracts, and a majority of the homes are dilapidated properties and/or rental properties.

The overall economy for the AA is stable. Anne Arundel County is in close proximity to Washington, D.C., the large number of government employers in the area and the local government help to keep the economy stabilized. Major sources of employment include financial and retail services, military, transportation and state, county and federal government. Some of the major employers in Anne Arundel County include: Fort George Meade, Northrup Grumman, Southwest Airlines, Baltimore Washington Medical Center, and Anne Arundel Health Systems. Some of the major employers in Baltimore City include: Johns Hopkins University, Johns Hopkins Hospital and Health System, University of Maryland Medical System, and MedStar Health. According to Moody's Analytics, strengths for the AA area are hub for growing cybersecurity, established and well-funded medical research centers and strong transportation and distribution industries. The weaknesses are decline in old-line manufacturing, above average living and business costs, few transportation links to Washington DC and below average population growth.

According to the Bureau of Labor Statistics, the March 31, 2016 unemployment rate for the Baltimore-Towson MD MSA was 4.7 percent. As of April 31, 2016, the Maryland unemployment rate was 4.6 percent and the national unemployment rate was 4.7 percent as of May 31, 2016.

Three community contacts, two new and one existing were conducted with local agencies to determine the credit needs within the Bank's AA. According to one contact there are a number of needs for the area including affordable housing for low and moderate-income households, support for supportive services to help low-income households reach financial stability; education and job training programs to support workforce development; afterschool and child care programs; and support for community development programs and services that will help to stabilize neighborhoods and improve overall quality of life in low-income communities. The contact also indicated that there is a need for revitalization of communities within the county, including Brooklyn Park, the Severn community, and the Glen Burnie area. These areas have a high concentration of low and moderate-income households, a high number of foreclosures and an older housing stock in need of rehabilitation. Banks can help support community development efforts in these communities by providing financing for housing projects as well as grant funding to support needed programs and services that benefit low-income residents. This is especially needed given ongoing

cuts to federal and state programs that typically provide funding for such activities. The community contacts indicated the local financial institutions have been meeting the needs of the community.

Conclusions with Respect to Performance Tests

LENDING TEST

AFSB's performance under the Lending Test is "Satisfactory". AFSB's quarterly average net loan-to-deposit ratio (LTD) is reasonable. A majority of loans originated were outside the Bank's combined AA. The distribution of loans reflects a reasonable distribution among individuals of different income levels. The geographic distribution of loans reflects reasonable distribution throughout census tracts of different income levels. All criteria of the Lending Test are documented below.

Loan-to-Deposit Ratio

AFSB's quarterly average net loan-to-deposit ratio is reasonable given the Bank's size, financial condition, performance context, the credit needs of the AA, and it meets the standards for satisfactory performance. The Bank's quarterly average net loan-to-deposit ratio over the twelve quarters since the last CRA evaluation was 63.79 percent. The ratio ranged from a quarterly low of 60.40 percent to a quarterly high of 67.11 percent during that time period. The quarterly average net loan-to deposit ratio for a custom peer group of six similarly sized and situated banks was 66.79 percent over the same period. The custom peer group's ratio ranged from a quarterly low of 28.86 percent to a quarterly high of 96.43 percent during that time period.

Lending in Assessment Area

AFSB originated a majority of primary loans outside its AA during the evaluation period. Our review indicated that approximately 45.67 percent of the number of loans and 45.28 percent of the dollar volume of loans originated from January 1, 2014, through June 30, 2015 were to borrowers located inside the Bank's AA.

Despite low lending activity within the AA, performance is adequate and meets the standards for satisfactory performance. The presence of several active, large bank and peer competitors within the Baltimore-Columbia-Towson MD MSA, the Bank's limited deposit market share of 0.61 percent within the AA, and community contact data indicating that AA credit needs are being met, are mitigating factors to the results of the Bank's Inside/Outside ratio and loan performance within the AA. Table 2 illustrates AFSB's lending within its AA by number and dollar amount of loans originated during the evaluation period.

Table 2 -Distribution of Loans Inside and Outside of Assessment Area										
Loan Category of Type	Number of Loans					Dollar Volume				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$(000s)	%	\$(000s)	%	\$(000s)
2014										
Home Purchase	14	23.33	46	76.67	60	3,328	20.37	13,010	79.63	16,338
Refinance	34	42.50	46	57.50	80	8,353	40.71	12,165	59.29	20,518
Home Improvement	11	61.11	7	38.89	18	2,559	63.64	1,462	36.36	4,021
2014 Total	59	37.34	99	62.66	158	14,240	34.84	26,637	65.16	40,877
2015										
Home Purchase	26	54.17	22	45.83	48	17,283	58.91	12,845	50.89	30,128
Refinance	50	52.08	46	47.92	96	4,845	57.34	3,439	42.63	8,284
Home Improvement	18	54.55	15	45.45	33	22,128	85.79	16,284	41.51	38,412
2015 Total	94	53.11	83	46.89	177	27,811	59.06	22,173	44.36	49,984
Total Home Loans	153	45.67	182	54.33	335	42,051	46.28	48,810	53.72	90,861

Source: HMDA-reportable loans originated between January 1, 2014 and December 31, 2015

Lending to Borrowers of Different Incomes

The distribution of loans reflects reasonable distribution among individuals of different income levels, and AFSB's record of lending to borrowers of different incomes meets the standard for satisfactory performance.

In our analysis, we took into consideration the lack of affordability for a low- or moderate-income (LMI) family to purchase a home. Based on the 2010 census data, the median cost of housing is \$373,595. The 2014 HUD updated median family income is \$89,600, which means a low-income family earned less than \$44,800. Additionally, moderate-income families earned at least \$44,800 but less than \$71,680. Therefore, low- and moderate-income borrowers would have difficulty qualifying for home mortgage loans. Many of the LMI families rent as opposed to own their own homes. The 2010 U.S. Census data reported that owner-occupied units represent 69.73 percent, renter occupied units represent 23.28 percent, and vacant housing units represent 6.99 percent of the total housing units available in the AA. Furthermore, 5.30 percent of households in the AA are below the poverty level. In addition, there are numerous financial institutions competing for the market share of residential home purchase, home refinancing, and home improvement loan products. The top five lenders had a combined market share of 30.03 percent. Among the leading lenders were national and regional financial institutions such as Wells Fargo Bank N.A.; Branch Banking and Trust Co; First Home Mortgage; Quicken Loans and JPMorgan Chase Bank, N.A.

The percentage of AFSB's mortgage lending to low-income borrowers was below peer lending, and far below the demographic percentage at 4.63 percent. However, AFSB's lending to moderate-income borrowers was slightly below the peer lending percentage as well as the percentage of moderate-income families within the AA.

The table below shows the distribution of HMDA loans in the AA among borrowers of different income levels for the period of January 1, 2014 through December 31, 2015, as compared to the percentage of families in each income category as well as the aggregate peer performance in 2014, the most recent year for which data is available.

Table 3 - Distribution of Arundel Federal HMDA-Reportable Loans By Borrower Income Level in the Assessment Area					Demographic Benchmarks	Peer Lending Benchmark
Income Level of Borrower	Number	No. Pct.	Dollar (000)	\$ Percent	Percent Families	2014 Aggr. HMDA
Low = <50%	15	10.14%	\$1,311	3.47%	14.48%	7.71%
Moderate = 50-79%	24	16.22%	3,556	9.41%	15.84%	14.75%
Middle = 80-119%	24	16.22%	5,239	13.86%	20.98%	21.39%
Upper = > 120%	85	57.43%	27,694	73.26%	48.70%	56.15%
Total	*148	100.00%	\$37,800	100.00%	100.00%	100.00%

Source: HMDA – reported data report 01/01/14 – 12/31/15; 2010 U.S. Census data.

* Excludes five loans for which borrower income was not available.

Geographic Distribution of Loans

AFSB's geographic distribution of loans reflects excellent dispersion throughout census tracts of different income levels and AFSB's performance exceeds the standards for satisfactory performance. There were no conspicuous gaps identified within AFSB's AA.

The distribution of home loans to low- and moderate-income geographies compares well to the percentage of owner-occupied housing in the AA. The Bank's lending to low- and moderate-income geographies exceeded the percentage of owner-occupied units in the AA as well as the lending performance by other lenders.

The following table illustrates loan originations, categorized by geography income level, that were reported by AFSB during the review period, and compares this activity to the 2014 aggregate lenders. The table also includes a comparison to the percentages of O.O.H.Us within the assessment area.

Table 4 - Distribution of Arundel Federal HMDA-Reportable Loans By Census Tract Income Level in the Assessment Area					Demographic Benchmarks	Peer Lending Benchmark
Income Level of Census Tract	Number	No. Pct.	Dollar (000)	\$ Percent	Percent O.O.H.U.	2014 Aggr. HMDA
Low = <50%	3	1.96%	\$190	0.45%	1.33%	0.44%
Moderate = 50-79%	6	3.92%	586	1.39%	4.66%	2.52%
Middle = 80-119%	51	33.33%	10,628	25.27%	39.41%	36.29%
Upper = > 120%	93	60.78%	30,647	72.88%	54.60%	60.75%
Total	153	100.00%	\$42,051	100.00%	100.00%	100.00%

Source: HMDA – reported data report 01/01/14 – 12/31/15; 2010 U.S. Census data.

Responses to Complaints

AFSB did not receive any complaints regarding its performance in helping to meet the credit needs in the Bank’s AAs during this evaluation period.

COMMUNITY DEVELOPMENT TEST

AFSB’s performance under the Community Development Test is rated Satisfactory.

The Bank’s performance under the CD test is rated Satisfactory. AFSB’s community development activities demonstrate adequate responsiveness to the community development needs of its AA, when considering the Bank’s capacity, its performance context, and the availability of community development opportunities in the Bank’s AA.

According to the definition found in 12 CFR 25, community development means:

- 1) Affordable housing for low- or moderate-income individuals;
- 2) Community services targeted to low- or moderate-income individuals;
- 3) Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs or have gross annual revenues of \$1 million or less; or
- 4) Activities that revitalize or stabilize:
 - low- or moderate-income geographies;
 - designated disaster areas; or
 - distressed or underserved non-metropolitan middle-income geographies.

Number and Amount of Community Development Loans

For the purpose of this evaluation, a community development loan is defined as a loan that: (1) has community development as its primary purpose, (2) has not already been reported by the bank for consideration under small business or residential mortgage lending (unless it is a multifamily dwelling loan), and (3) benefits the bank's assessment area or a broader statewide or regional area that includes the bank's assessment area.

No community development loans were originated or purchased in this AA during the evaluation period.

Number and Amount of Qualified Investments

A qualified investment for the purpose of this CRA evaluation is a lawful investment, deposit, membership share, or grant that has community development as its primary purpose.

During the evaluation period, AFSB made three current period investments for a combined total of \$1,010,000. All three investments are Community Development Administration residential revenue bonds through the Maryland Department of Housing and Community Development and provide financing for affordable housing properties and projects within the state, including the Bank's AA.

Additionally, AFSB made 38 donations for a total of \$27,700 to 17 different qualified community development organizations that provided affordable housing or community services to LMI areas and/or to LMI individuals, within the assessment area.

Extent to Which the Bank Provides Community Development Services

This section of the Community Development Test evaluates the institution's record of providing community development services, including the provision and availability of services to low- and moderate-income people. A community development service has community development as its primary purpose and is generally related to the provision of financial services or technical assistance.

During the evaluation period, three Bank officers provided financial and technical expertise in various capacities for two local organizations. The community development services offered focused on education that aided low- and moderate-income geographies and low- and moderate-income individuals.

AFSB's delivery systems are accessible to geographies and individuals of different income levels throughout the AA. AFSB's branch in Baltimore City is located in a low-income tract. Based on information obtained during our community contacts, the

Baltimore City branch is located in an area that is being targeted for revitalization. No community development services were provided during the evaluation period.

Responsiveness to Community Development Needs

CD loans have not greatly assisted in meeting the community needs identified by the community contacts; however, CD investments and services support affordable housing, which is an identified need in the AA. Considering the Bank's capacity and lending focus, the AA needs, and the availability of CD opportunities, AFSB's CD performance demonstrates adequate responsiveness to the needs of the AA.

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 (bank) 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 AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

There was no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs of the Bank's assessment area.