



Office of the  
Comptroller of the Currency  
Washington, DC 20219

# INTERMEDIATE SMALL BANK

## PUBLIC DISCLOSURE

May 22, 2017

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Affiliated Bank  
Charter Number 714544

500 Harwood Bedford, TX 76021

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**

- Affiliated's loan-to-deposit ratio (LTD) is more than reasonable given its size, strategy and performance context. The bank's LTD ratio averaged 119.13 percent during the evaluation period.
- The majority of loans originated by Affiliated were within its designated assessment areas (AAs). Based on our analysis of the bank's loan portfolio, 70.23 percent of loans originated during the evaluation period were made to borrowers within its designated AAs.
- The bank's lending distribution reflects reasonable penetration among borrowers of different income levels and businesses of different sizes within its AAs and meets the standards for satisfactory performance.
- The bank's geographic distribution of home mortgage and business loans reflects a reasonable dispersion to low- and moderate-income census tracts and meets the standards for satisfactory performance.
- Affiliated's community development performance through qualified loans, investments and services is satisfactory and demonstrates adequate responsiveness to the community development needs of its AAs.
- No consumer complaints regarding the institution's CRA performance were received during this evaluation period.

## **Scope of Examination**

Affiliated Bank (Affiliated) qualifies as an Intermediate Small Bank under the Community Reinvestment Act (CRA) regulation and is therefore, subject to a Lending Test and a Community Development (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 CD related lending, qualified investments, and services. We began the CRA performance evaluation of the bank on May 22, 2017. The evaluation period for the Lending Test runs from January 1, 2012 through December 31, 2016. The evaluation period for the CD Test runs from December 5, 2011 through May 22, 2017. 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 for purposes of the lending test was based on a review of the bank's primary lending products. We considered all home mortgage

lending activity reportable under the Home Mortgage Disclosure Act (HMDA) and also, selected and reviewed a combined sample of commercial real estate and commercial loans originated during the evaluation period. Prior to the start of the CRA exam, we tested the bank's HMDA data to verify the accuracy of data to be used during this evaluation. We found the data accurate and therefore reliable for purposes of evaluating the bank's CRA performance. We also verified CD loans, investments, and services transacted during the evaluation period 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.

## Description of Institution

Affiliated is a federally-chartered thrift which was established in 1998 and is headquartered in Bedford, Texas. The bank is wholly-owned by Banc-affiliated Inc. a unitary thrift holding company. Banc-affiliated has no other significant assets or liabilities and its activities do not influence the bank's CRA rating.

As of December 31, 2016, the bank's assets totaled \$641 million with loans representing 88 percent of these assets. The bank has grown significantly since the last CRA evaluation where assets totaled \$203 million. The bank's significant growth is in accordance with management's on-going growth strategy. Management has been able to accomplish its growth initiatives through increases in consumer mortgage and residential construction loans, as well as by participating in the SBA program. The bank's loan portfolio is well-diversified with 1-4 family residential, commercial real estate, construction and development loans each constituting comparable sizeable portions of the portfolio. SBA loans, general commercial and industrial loans and a nominal amount of consumer loans round out the bank's loan portfolio. The following table outlines the bank's loan portfolio distribution and associated dollar amounts as of December 31, 2016.

<b>Loan Portfolio Summary by Loan Product</b>		
<b>December 31, 2016</b>		
<b>Loan Category</b>	<b>\$(000)</b>	<b>%</b>
1-4 Family Residential Loans	210,598	36.04%
1-4 Family Construction & Development	145,698	24.94%
Commercial Real Estate Loans	116,209	19.89%
Construction & Development Loans	70,751	12.11%
Commercial & Industrial Loans	32,365	5.54%
Consumer Loans	8,655	1.48%
<b>Total</b>	<b>537,130</b>	<b>100.00%</b>

*Source: December 31, 2016 Report of Condition.*

Affiliated operates four full service branches, three of which are located within the Dallas-Fort Worth metropolitan area with the remaining branch located in Round Rock, Austin, Texas. The bank also operates several loan production offices (LPOs) within the state of Texas. There are no current plans to open additional branches. Hours of

operation at all four branches are commensurate with those of area banks. Bank lobby services are available on Monday through Friday from 9:00am to 5:00pm. The Arlington and Bedford branches are open on Saturdays from 9:00am to noon. Drive-through services are provided at all the branches during normal operating hours. Along with its wide range of lending products, the bank also offers a full range of deposit services. Affiliated also offers online banking at [www.affiliatedbank.com](http://www.affiliatedbank.com). The online banking website provides customers with access to account information, online transfers between accounts, and bill pay services.

The bank's lending strategy is to continue to implement growth initiatives in line with its strategic goals and provide optimal returns to the bank's stakeholders while still being responsive to the credit and community development needs of its designated AAs. Based on its financial condition, the local economy, product offerings, and competition, Affiliated has the ability to meet the various credit needs in its community and 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 December 5, 2011.

## **Description of Assessment Area(s)**

Affiliated has designated the Fort Worth-Arlington, Dallas-Plano-Irving and Austin-Round Rock metropolitan statistical areas (MSAs) as its AAs. This is a change from the prior CRA examination where the bank's AAs only consisted of the Fort Worth-Arlington and Dallas-Plano-Irving MSAs. When factors such as the bank's overall operations, branch network and deposit distribution are considered, the Fort Worth-Arlington and Dallas-Plano-Irving MSAs comprise the bank's primary AAs. As of our evaluation date, three of four of the bank's branches and over 95 percent of deposits were held within both of these MSAs. However, all the AAs will receive full-scope reviews due to the relative proportionality of the bank's lending activity within the three designated MSAs. Demographic and economic data for each of the AAs is reflected in the following table:

<b>Demographic and Economic Characteristics</b>			
<b>Assessment Area</b>	<b>Fort Worth-Arlington MSA</b>	<b>Dallas-Plano-Irving MSA</b>	<b>Austin –Round Rock MSA</b>
<b><i>Population</i></b>			
Number of Families	541,844	1,004,926	388, 214
Number of Households	766,307	1,462,057	620,073
<b><i>Geographies</i></b>			
Number of Census Tracts	427	897	350
% Low-Income Census Tracts	7.96	12.93	10.29
% Moderate-Income Census Tracts	26.93	24.75	24.57
% Middle-Income Census Tracts	39.11	26.42	35.14
% Upper-Income Census Tracts	25.76	35.56	29.14
% N/A Census Tracts	0.23	0.33	0.86
<b><i>Median Family Income</i></b>			
2010 MFI for Assessment Area	\$70,346	\$75,391	\$78,122
2015 HUD-Adjusted MFI	\$68,700	\$69,100	77,800
<b><i>Economic Indicators</i></b>			
Unemployment Rate	4.85	4.74	2.8
2010 Median Housing Value	\$144,383	\$173,315	\$204, 319
% of Households Below Poverty Level	11.61	11.87	12.34
% of Households on Retirement Income	13.83	11.00	12.50

*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 two of the bank's branch locations within the MSA are both located within Tarrant County, 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. Affiliated offers special residential

mortgage loan programs within its AAs to assist low- and moderate-income families in affording home purchases. These programs are discussed in the ***Community Development and Services*** section.

Based on Dun & Bradstreet data reported as of June 2016, there are 161 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 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 May 2017. The low unemployment rate within the Fort Worth MSA AA compares favorably with the national unemployment rate of 4.3 percent.

Interviews with two community contacts within the Fort Worth MSA AA were considered as part of this performance evaluation. The perception of financial institutions in general was positive. Financial institutions were said to be taking advantage of the excellent CD opportunities available in the area and actively meeting the credit needs of the community and local businesses.

The Fort Worth MSA AA is highly competitive. Competition amongst financial institutions is above-average and increasing. The primary competition to Affiliated 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.

### **Dallas-Plano-Irving (Dallas) MSA AA**

The Dallas MSA AA is comprised of Collin, Dallas, Denton, Ellis, Hunt, Kaufman and Rockwall counties. The bank has one branch location within Dallas County; however, it 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.

According to data from the 2010 US Census, the population within the AA is 4.23 million. There are 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.

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 2016 there are 365 thousand businesses in the AA. Of these businesses, 85 percent reported gross annual revenue of less than \$1 million and 6 percent reported gross annual revenue equal to or greater than \$1 million. Because reporting is voluntary, 9 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 May 2017. The low unemployment rate within the Dallas MSA AA compares favorably with the national unemployment rate of 4.3 percent reported by the Bureau of Labor Statistics during the same period.

Community contacts interviewed within the Dallas MSA AA, 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 given the current upswing in the housing market which is making it difficult for low-income families to purchase homes. Another contact outlined activities such as the facilitation of financial literacy and counseling programs related to home buying and the funding of small business loan pools in minority neighborhoods as opportunities for financial institutions to meet the credit needs of this community.

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.

### **Austin-Round Rock (Austin) MSA AA**

The Austin MSA AA is comprised of Travis, Hays, Williamson, Bastrop and Caldwell counties. As with the other two MSAs, the bank has a branch location in Round Rock, Williamson County but serves the entire Austin MSA through its lending activities. 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 1.72 million. There are 350 census tracts within the AA, of which 10.29 percent are low-income and 24.57 are moderate-income census tracts. The proportion of middle- and upper-income tracts comprise 35.14 and 29.14 percent, respectively. There are 676,169 housing units in the AA, of which 54.35 percent are owner-occupied, 37.35 percent are renter-occupied, and 8.30 percent are vacant. The median housing value is \$204,319.

According to the Dun & Bradstreet data provided as of June 2016, there are 152 thousand businesses in the AA. Of these businesses, 86 percent reported gross annual revenue of less than \$1 million and 6 percent reported gross annual revenue equal to or greater than \$1 million. Because reporting is voluntary, 8 percent of the businesses did not report revenues.

Austin is the fourth largest city in Texas and the eleventh most populous city within the United States. The Austin MSA is usually referred to as the Greater Austin area. Austin is generally known to be one of the centers of the high-tech industry due to a large congregation of the largest high-tech companies within the city. Along with the high-tech, industries such as defense, education and government activities also provide strong diversified support for the Austin economy. Austin's largest employers include the Austin ISD, the City of Austin, Dell, NXP Semiconductors, IBM and the Seton Family of Hospitals. Other high-tech companies with operations in Austin include 3M, Apple, Amazon, Cisco Systems, eBay and PayPal. According to the United States Bureau of Labor Statistics, the unemployment rate within the greater Austin area was 3.2 percent as of June 29, 2016. The low unemployment rate within the Austin MSA AA compares favorably with the national unemployment rate of 4.3 percent reported by the Bureau.

Community contacts interviewed within the Austin MSA AA disclosed that while there are no significant lending gaps by local financial institutions in meeting the credit needs of the community, there continues to be a need for affordable rental housing. The contacts indicated that the qualifying requirements for affordable housing have become more stringent than they were several years ago.

Like most large cities, competition amongst financial institutions within the Austin MSA AA is high. The array of financial institutions available range from branches of the nation's largest banks, larger regional banks, credit unions and community banks.



## Conclusions with Respect to Performance Tests

Affiliated's CRA performance is rated "Satisfactory" for both the Lending and Community Development Tests.

### LENDING TEST

Affiliated's performance in meeting the credit needs of its AAs is satisfactory. To reach our conclusions, we considered the bank's LTD ratio, the volume of lending inside/outside the AA, the distribution of lending to borrowers and business of different incomes and geographies and responses to CRA complaints. All rating factors and the bank's designated AAs received equal weight. The LTD and in/out ratios were computed using bank-wide data. For purposes of the lending test, we evaluated HMDA data reported from 2014 through 2016 and selected samples from the commercial real estate and commercial loans to evaluate the bank's income and geographical lending distributions.

### Loan-to-Deposit Ratio

Affiliated's LTD ratio is more than reasonable and exceeds the standards for satisfactory performance given the bank's size, financial performance, and the AAs' 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. Affiliated's average LTD ratio for the rating period is 119.13 percent and reflects an increase from the average ratio of 109 percent at the last CRA performance evaluation. During the evaluation period, the bank's LTD ratio ranged from a low of 98.29 percent to a high of 148.12 percent. The average LTD ratio for peer banks during the same rating period ranged from 23.06 percent to 90.57 percent.

The following table reflects how Affiliated's LTD performance compares to seven other similarly-situated institutions in terms of asset size and operations within the bank's AAs.

Loan to Deposit Ratios			
Institution	City	Assets as of 12/31/2016 (\$000)	Average LTD Ratio %
Affiliated Bank	Bedford	587,948	119.13
Wallis State Bank, The	Wallis	506,120	84.41
R Bank	Round Rock	401,998	71.25
Industry State Bank	Industry	717,426	23.06
Benchmark Bank	Plano	544,210	90.57
Dallas Capital Bank, National Association	Dallas	716,927	73.63
Liberty Bank	Hurst	442,577	83.74
Tolleson Private Bank	Dallas	541,076	76.51

Source: Institution Reports of Condition from January 1, 2012 to December 31, 2016.

## Lending in Assessment Area

The majority of Affiliated's lending activity was originated within its AAs and meets the standards for satisfactory performance. To determine the proportion of loans originated within the bank's designated AAs during the evaluation period, we evaluated the bank's entire range of loan products. As reflected in the table below, 70.23 percent of the number of loans and 75.39 percent of the dollar amount of loans were made within the bank's AAs.

Table 1 - Lending in AAs										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Purchase	1,533	61.86	945	38.14	2,478	350,507	71.29	141,188	28.71	491,695
Improvement	3	75.00	1	25	4	1,153	76.87	347	23.13	1,500
Refinance	378	64.07	212	35.93	590	95,711	71.18	38,750	28.82	134,461
Business Loans	738	95.97	31	4.31	769	139,624	93.49	9,718	6.51	149,342
Consumer Loans	236	87.08	35	12.92	271	5,392	61.83	3,329	38.17	8,721
Totals	2,888	70.23	1,224	29.77	4,112	592,387	75.39	193,332	24.61	785,719

Source: Loans reported under 2014-2016 HMDA data submissions and bank provided loan data.

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

Overall, the distribution of loans originated by the bank during the evaluation period reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes.

### Fort Worth MSA AA

#### **Residential Real Estate Loans**

The bank's distribution of residential real estate loans within the Fort Worth MSA 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 the low- and moderate- income brackets for home purchase loans 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 are comparable to the aggregate level of lending done by peer banks within the AA.

The bank's distribution of home refinance loans to low- and moderate-income borrowers, however, lags peer aggregate lending for this product within the AA. According to bank management, this is attributable to softening market conditions for home refinance loans given the current rising interest rate environment. The bank's

reasonable lending penetration to low- and moderate-income borrowers for home purchase loans reflects the bank's commitment to meeting the credit needs of borrowers of all income levels within its Fort Worth community.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of 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
Home Purchase	6.01	7.37	19.68	19.10	25.05	22.72	49.26	50.81
Home Refinance	5.37	1.02	14.52	9.18	23.31	12.76	56.80	77.04

Source: HMDA 2015 aggregate, HMDA LAR Data 2014 – 2016

### Commercial Loans

Affiliated's distribution of loans to businesses of different sizes within the Fort Worth MSA 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 80 percent of commercial loans by number and 69.84 percent by dollar amount originated to businesses with revenues less than \$1 million. This is comparable to the 85 percent designated as small businesses within the AA.

<b>Table 2A - Borrower Distribution of Loans to Businesses in AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	85.16	4.85	9.99	100%
% of Bank Loans in AA by #	80.00	10.00	10.00	100%
% of Bank Loans in AA by \$	69.84	21.48	8.69	100%

Source: Dunn and Bradstreet data, Loan sample 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 penetration to low- and moderate-income families. The bank's percentage of home purchase loans to low-income borrowers is somewhat lower than the corresponding peer aggregate lending percentage, however lending to moderate-income families exceeds aggregate peer lending for this product within the AA, demonstrating the bank's overall strength in lending to low- and moderate-income borrowers.

The bank's distribution of home refinance loans to low- and moderate-income families is lower than peer aggregate percentages. Similar to the Fort Worth housing market, the current demand for refinance loans in the Dallas-Plano-Irving market has softened in

comparison to about three years ago when mortgage interest rates were at their lowest and mortgage refinancing was at its peak. In the current gradual rising rate environment, the incentive to refinance naturally declines even though home prices and borrowers' home equities continue to rapidly rise within the Texas market.

Table 3 - Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of 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
Home Purchase	4.11	3.66	14.55	16.82	20.83	18.65	60.51	60.88
Home Refinance	4.17	2.54	11.64	6.78	19.70	17.80	64.49	72.88

Source: HMDA 2015 aggregate, HMDA LAR Data 2014 – 2016

### Commercial Loans

Affiliated's distribution of loans to businesses of different sizes within the Dallas MSA is reasonable, meeting the standards for satisfactory performance. Lending to small businesses during the evaluation period lagged the percentage of businesses within the AA. Of the 20 loans we sampled to determine the bank's lending distribution to small businesses, 55 percent of the number of loans and 44.13 percent of the dollar amount was made to small businesses. Small businesses comprise 85.44 percent of all businesses within the AA. The bank's low level of lending to small businesses is reasonably explained by the bank's loan portfolio mix specifically within the Dallas MSA, which contains a significant proportion of construction and development loans to build 1-4 family homes and commercial real estate lending. Businesses within the construction and development and commercial real estate industries typically embody higher complexities, have larger operations and tend to generate correspondingly large revenues which would preclude them from being considered as small businesses for CRA purposes.

Table 3A - Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	85.44	5.46	9.10	100%
% of Bank Loans in AA by #	55.00	40.00	5.00	100%
% of Bank Loans in AA by \$	44.13	53.30	2.57	100%

Source: Dunn and Bradstreet data, Loan sample

**Austin MSA AA**

***Residential Real Estate Loans***

The bank’s overall distribution of residential real estate loans within the Austin MSA AA reflects excellent penetration to low- and moderate-income families and meets the standards for excellent 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 4, the bank’s distributions of home purchase loans to low- and moderate-income borrowers well exceeds the aggregate of peer banks within the AA. The percentage of the bank’s home refinance loans made to low-income borrowers far exceeds that of peer lenders within the AA. In addition, the percentage of home refinance lending to moderate-income borrowers is comparable to the aggregate of peer lenders.

<b>Table 4 - Borrower Distribution of Residential Real Estate Loans in AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of 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
Home Purchase	3.94	5.41	17.07	23.24	24.73	20.00	54.26	51.35
Home Refinance	4.53	9.38	14.67	14.06	22.76	10.94	58.04	65.63

*Source: HMDA 2015 aggregate, HMDA LAR Data 2014 – 2016*

***Commercial Loans***

Affiliated’s distribution of loans to businesses of different sizes within the Austin MSA AA is reasonable. Lending performance to small businesses during the evaluation period was satisfactory, with 79 percent of commercial loans by number and 92.09 percent by dollar amount originated to businesses with revenues less than \$1 million. This is comparable to the 85.63 percent designated as small businesses within the AA.

<b>Table 4A - Borrower Distribution of Loans to Businesses in AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	85.63	4.75	9.62	100%
% of Bank Loans in AA by #	79.00	5.00	16.00	100%
% of Bank Loans in AA by \$	92.09	2.90	5.01	100%

*Source: Dunn and Bradstreet data, loan sample*

## Geographic Distribution of Loans

The bank's overall geographic distribution of home mortgage and business 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, both home mortgage and commercial loan products received equal weight.

### Fort Worth MSA AA

#### **Residential Real Estate Loans**

Affiliated's geographic distribution of residential real estate loans within the Fort Worth MSA AA represents an excellent dispersion. As reflected in Table 5, the percentage of the bank's home purchase loans made to low-income census tracts is slightly below the aggregate percentage of lending activity by peer lenders within the AA. Home purchase loans made to moderate-income tracts well exceeds the peer aggregate lending to those tracts within the AA. The bank's lending dispersion of home refinance loans to moderate-income tracts within the AA is excellent as it significantly exceeds the aggregate lending made by peer lenders within those income-tracts.

<b>Table 5 - Geographic Distribution of Residential Real Estate Loans in AA</b>								
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
Home Purchase	0.70	0.62	10.93	13.98	41.02	43.57	47.35	41.82
Home Refinance	0.57	4.08	8.77	12.76	37.87	35.71	52.79	47.45

Source: HMDA 2015 aggregate, HMDA LAR Data 2014 – 2016

#### **Commercial Loans**

Affiliated's geographic distribution of commercial loans within the Fort Worth MSA AA reflects a reasonable 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 in low-income census tracts within the AA. The distribution of commercial loans to moderate-income tracts well exceeds the percentage of small businesses within the AA and exceeds the standards for satisfactory performance.

Table 5A - Geographic Distribution of Loans to Businesses in 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
Business Loans	4.46	0.00	20.88	25.00	37.50	30.00	37.02	45.00

Source: Dunn & Bradstreet data, Loan Sample

**Dallas MSA AA**

***Residential Real Estate Loans***

The geographic distribution of residential real estate loans within the Dallas MSA AA is reasonable. As reflected in Table 6, the percentage of the bank’s home purchase loans made to low- and moderate-income tracts are relatively comparable to peer mortgage aggregate percentages. The bank’s home refinance lending to low- and moderate-income census tracts exceeds that of peer lenders within the AA and reflects a reasonable dispersion.

Table 6 - Geographic Distribution of Residential Real Estate Loans in AA								
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
Home Purchase	2.05	0.73	9.05	9.32	28.72	34.73	60.17	55.21
Home Refinance	1.41	3.39	8.05	9.32	24.50	31.36	66.04	55.93

Source: Data reported under HMDA; HMDA 2015 aggregate

***Commercial Loans***

Affiliated’s geographic distribution of commercial loans within the Dallas MSA AA reflects a reasonable 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 within low-income census tracts in the AA. The distribution of commercial loans to moderate-income tracts well exceeds the percentage of small businesses within the AA and exceeds the standards for satisfactory performance.

Table 6A - Geographic Distribution of Loans to Businesses in 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
	8.13	0.00	17.45	25.00	25.91	30.00	48.29	45.00

Source: Dunn & Bradstreet data.

**Austin MSA AA**

**Residential Real Estate Loans**

Affiliated’s geographic distribution of residential real estate loans within the Austin MSA AA represents an excellent dispersion and exceeds the standards for satisfactory performance. As reflected below, the percentage of home purchase and home refinance loans made to low- and moderate-income census tracts exceeds the peer aggregate lending to those census tracts within the AA.

Table 7 - Geographic Distribution of Residential Real Estate Loans in AA								
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
Home Purchase	2.93	3.78	15.09	21.62	41.02	36.76	40.95	37.84
Home Refinance	3.22	7.81	12.30	14.06	35.86	40.63	48.63	37.50

Source: HMDA 2015 aggregate, HMDA Lar Data 2014 – 2016

**Commercial Loans**

The bank’s geographic distribution of commercial loans within the Austin MSA AA reflects a reasonable dispersion. During the evaluation period, the distribution of commercial loans to low- and moderate-income tracts was comparable to the percentage of small businesses within these respective census tracts.

Table 7a - Geographic Distribution of Loans to Businesses in 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
Business Loans	6.26	5.00	17.91	16.00	30.64	58.00	45.10	21.00

Source: Dunn & Bradstreet data, Loan Sample



## **Responses to Complaints**

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

## **COMMUNITY DEVELOPMENT TEST**

Affiliated meets the standards for satisfactory performance under the CD Test. Affiliated demonstrates an adequate responsiveness to the CD needs of its AAs through the use of CD loans, qualified investments, and CD services, relative to its 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 and Dallas MSA AAs, as both AAs contain the majority of its local branches and account for 95 percent of total deposits.

### **Number and Amount of Community Development Loans**

Considering the needs and opportunities in the AAs, and Affiliated'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, Affiliated originated 7 CD loans to 5 businesses or organizations totaling \$5.859 million within the AA.

The largest two loans made were loans to a company located in an area designated as a historically underutilized business zone (HUBZone) by the Small Business Administration (SBA). The company is located in a low-income tract. The HUBZone program helps small businesses in urban and rural communities gain preferential access to federal procurement opportunities. Eligibility for these loans include qualifying as a small business by SBA's standards, having the principal office of the company located within an area designated as a HUBZone and ensuring that at least 35% of the company's workforce resides in the subject area. By extending these loans, Affiliated helps to support small businesses and promotes economic development and stabilization within a low-income area through the creation of permanent jobs that will benefit residents within the area.

Another two of the CD loans were made to a medical practice and a drug rehabilitation clinic respectively, both of which are located in moderate-income tracts and provide essential healthcare services to residents within their respective areas. While the

services of these two health facilities are not only targeted towards low- and moderate-income individuals, the location of both facilities and their proximities to other low-and moderate census tracts demonstrate that services will primarily benefit low- and moderate-income individuals.

Of the three remaining loans, two fund the working capital needs for a waste management services company located within a moderate-income tract and support the provision of essential community services and retain jobs that will benefit low- and moderate-income individuals within the geography. The last loan funds the expansion of a cabinet making business into a moderate-income tract thereby creating permanent jobs that will benefit low- and moderate-income residents within the area.

### **Dallas MSA AA**

The level of qualified CD loans within the Dallas MSA AA reflects adequate responsiveness. During the evaluation period, Affiliated originated 3 CD loans totaling \$3.075 million within the AA.

Primary loans in the amount of \$2.345 million were made to a non-profit organization located in Grand Prairie, Texas which is located in a low-income geography and whose primary mission is to provide affordable housing to low- and moderate-income residents of Grand Prairie. The other loan supports an assisted living facility which provides essential healthcare services to low- and moderate-income seniors within a low-income tract.

### **Austin MSA AA**

There were no qualified CD loans made within the Austin MSA AA during the evaluation period, however the bank's performance context within the Austin MSA AA mitigates concerns. The bank's lack of CD lending within the Austin MSA AA is reasonably explained by the concentration of its branch locations and deposit base within the Fort Worth and the Dallas MSA AAs. However, efforts must be made to identify CD lending opportunities also within the Austin MSA AA.

### **Number and Amount of Qualified Investments**

Considering the needs and opportunities in the AAs, and Affiliated's performance context and capacity, the bank's CD investments indicate adequate responsiveness. During the review period, Affiliated made an equity investment in Bluehenge Capital Secured Debt LP. Funds advanced under this investment support Small Business Investment Companies (SBIC) with portfolios located in geographies within the bank's three designated AAs. The bank's original commitment to the fund was \$500 thousand and the balance utilized as of March 31, 2017 was \$116 thousand. The terms of the investment require that the fund purchase and hold CRA-qualifying investments specifically within the bank's three designated AAs.

Other investments totaling \$5,315 include donations to organizations primarily within the Fort Worth MSA that provide community services targeted to low- or moderate-income individuals. Of particular note is the \$2,500 donation to Junior Achievement of the Chisolm Trail, an organization that teaches financial literacy to students from low- to moderate-income families.

### **Extent to Which the Bank Provides Community Development Services**

Overall, Affiliated'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.

Affiliated 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. Bank employees also leverage their financial expertise to serve local charitable organizations whose mission is to provide assistance, education and skills to low- and moderate-income residents.

Affiliated offers residential mortgage loan programs within the AAs to assist low- and moderate-income families in financing home purchases. During the review period, Affiliated participated in three different bond loan programs that provide grants and other assistance to homebuyers who are income qualified (primarily low- or moderate-income families). Affiliated made 58 of these loans totaling \$6.65 million. The related loans are reported on the HMDA register and are included in the tables contained in this Performance Evaluation.

The bank contributes to a monthly newsletter which provides helpful information to customers on topics such as credit report basics, creating strong passwords for online access to financial information, tips for traveling with credit cards, and malware and other cybersecurity threats.

### **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, bank management and personnel provided a total of 84 hours of qualifying CD services to 12 organizations with programs specifically benefitting low- and moderate-income individuals and families within the AA.

**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, bank management and personnel provided a total of 60 hours of qualifying CD services to 13 organizations with programs specifically benefitting low- and moderate-income individuals and families within the AA.

**Austin MSA AA**

The bank did not provide any qualifying CD services within the Austin MSA during the evaluation period, however, consideration of the bank's performance context within the Austin MSA mitigates concerns. The bank's lack of CD lending within the Austin MSA is reasonably explained by the concentration of its branch locations and deposit base within the Fort Worth and the Dallas MSAs.

**Responsiveness to Community Development Needs**

The volume and responsiveness of Affiliated 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.

**General Services**

The branch system is the primary delivery system for retail banking services. The bank has four full service branch locations; two are located in middle-income census tracts and two are located in upper-income census tracts. The bank also operates one loan production office in a moderate-income census tract, one location offering exclusively mortgage services in a moderate-income census tract, and an SBA loan office in an upper-income census tract. The bank does not operate any ATMs, but is a member of the Transfund group allowing customers to use any Transfund ATM free of charge. During the evaluation period, the bank opened one branch (the Garland location) in a middle-income census tract, moved its mortgage services center from a moderate-income census tract (Hulen Street in Fort Worth) to a moderate-income census tract (Matlock Road in Arlington) while maintaining the location in Fort Worth as an LPO, and changed an LPO to a full-service branch (Round Rock location) in an upper-income census tract. The distribution of branches 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. The full service locations maintain standard banking hours Monday through Friday with extended drive-thru hours. The drive-through lanes at two of the four full service branches are open Saturdays.

Affiliated's banking programs and hours allow the bank to deliver needed banking and credit services to low- and moderate-income areas and individuals within the AA.

- Free personal checking that includes free online banking, free bill pay and free Debit Card features that assist in providing services to low- and moderate-income individuals. This account only requires \$100 opening deposit. The account comes with free ATM fees at any Transfund ATM. Online banking includes bill payment, online statements, ACH originations, and transferring funds between accounts. The bank also offers free mobile app.
- Business checking with no minimum monthly balance required (\$15 monthly fee if balance falls below \$1,500), first 25 debits free and unlimited debt card transactions per cycle, free online banking and free debit card, and only \$100 opening deposit.
- The bank offers Remote Deposit Capture 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.
- SBA loans to small businesses.
- Consumer loans, loans on deposits, lines of credit, business loans, and residential mortgage loans.

## **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.