

# **PUBLIC DISCLOSURE**

April 11, 2016

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Southwest Bank  
RSSD # 423458

4100 International Plaza, Suite 900  
Fort Worth, Texas 76109

Federal Reserve Bank of Dallas  
2200 North Pearl Street  
Dallas, Texas 75201

**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.

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## INSTITUTION RATING

**Institution's CRA Rating: Southwest Bank is rated Satisfactory.**

The following table indicates the performance level of Southwest Bank, Fort Worth, Texas (Southwest) with respect to the lending, investment, and service tests.

**Table of Performance Ratings**

Performance Levels	Southwest Bank Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		X
Low Satisfactory		X	
Needs to Improve			
Substantial Non Compliance			

\* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

### **Summary of Major Factors Supporting Rating**

Major factors supporting the institution's rating include:

- Lending activity reflects good responsiveness to assessment area's credit needs. The bank originated 4,274 Home Mortgage Disclosure Act (HMDA) reportable loans, small business, and small farm loans for a total of \$1.1 billion during the review period.
- A high percentage of loans are made in the bank's assessment area, with total loans of 71% by number and 69% by dollar volume.
- The geographic distribution of loans reflects excellent penetration throughout the assessment area.
- The distribution of small business lending reflects good penetration among business of different revenue sizes, with 56% of loans originated to small businesses with revenues of \$1 million or less.
- Makes a relatively high level of community development loans, with 26 community development loans for \$75 million in the assessment area.
- Delivery systems are accessible to the bank's geographies and individuals of different income levels in the assessment area.
- Provides a relatively high level of community development services.

## INSTITUTION

### Description of the Institution

#### Business Structure

Southwest Bank is a commercial bank headquartered in Fort Worth, Texas. Southwest is a wholly owned subsidiary of First Texas Bank Holding Company, Inc., also headquartered in Fort Worth, Texas. As of December 31, 2015, Southwest operated 15 full-service branch offices, two mobile branches, one limited-service branch, one loan production office (LPO), and 13 automated teller machines (ATM) throughout its footprint. Southwest is a full-service retail bank that offers a wide range of traditional consumer-related products and services including retail deposit products, small business loans, residential construction loans, first- and second-lien mortgage loans, and agricultural loans. All the available retail and loan products are offered throughout the bank's markets.

<b>BRANCH NAME/ BRANCH ADDRESS</b>	<b>COUNTY AND CT INCOME LEVEL</b>	<b>LOBBY HOURS</b>	<b>MOTOR BANK HOURS/ATM</b>
<b>Full Service Center</b>			
7 <sup>th</sup> Street 2200 West 7 <sup>th</sup> Street Fort Worth, TX 76107	Tarrant Moderate	Mon.-Thur.: 9:00 am-4 pm Fri.: 9:00 am-6pm Sat.: Closed	Mon.-Fri.: 7:30 am – 6 pm Sat: Closed ATM on-site
Arlington-Lamar 1630 E. Lamar Blvd., Suite 140 Arlington, TX 76011	Tarrant Moderate	Mon.-Thur.: 9:00 am-4 pm Fri.: 9:00 am-6 pm Sat.: Closed	Mon.-Fri.: 7:30 am – 6 pm Sat: 9:00 am – 12 pm ATM on-site
Arlington-Matlock 3641 Matlock Arlington, TX 76015	Tarrant Moderate	Mon.-Thur.: 9:00 am-4 pm Fri.: 9:00 am-6 pm Sat.: Closed	Mon.-Fri.: 7:30 am – 6 pm Sat: 9:00 am – 12 pm ATM on-site
Beltline – Dallas 5151 Beltline Road, Suite 600 Dallas, TX 75254	Dallas Middle	Mon.-Thur.: 9:00 am-4 pm Fri.: 9:00 am-4 pm Sat.: Closed	None
Burleson 551 S. W. Wilshire Blvd. Burleson, TX 76026	Johnson Middle	Mon.-Thur.: 9:00 am-4 pm Fri.: 9:00 am-6 pm Sat.: Closed	Mon.-Fri.: 7:30 am – 6 pm Sat: 9:00 am – 12 pm ATM on-site
Camp Bowie 4809 Camp Bowie Blvd. Fort Worth, TX 76107	Tarrant Upper	Mon.-Thur.: 9:00 am-4 pm Fri.: 9:00 am-6 pm Sat.: Closed	Mon.-Fri.: 7:30 am – 6 pm Sat: 9:00 am – 12 pm ATM on-site
Dallas-Luna 1603 LBJ Freeway, Suite 100 Dallas, TX 75234	Dallas Moderate	Mon.-Fri.: 9:00 am-4 pm	Mon.-Fri.: 8:30 am-5:30 pm ATM on-site
Fort Worth Club 306 West 7 <sup>th</sup> Street, Suite 504 Fort Worth, TX 76102	Tarrant Upper	Mon.-Fri.: 9:00 am-5 pm	None
Grapevine 2200 Pool Road Grapevine, TX 76051	Tarrant Upper	Mon.-Thur.: 9:00 am-4 pm Fri.: 9:00 am-6 pm Sat.: Closed	Mon.-Fri.: 7:30 am – 6 pm Sat: 9:00 am – 12 pm ATM on-site
Hulen 2601 S. Hulen St. Fort Worth, TX 76109	Tarrant Moderate	Mon.-Thur.: 9:00 am-4 pm Fri.: 9:00 am-6 pm Sat.: Closed	Mon.-Fri.: 7:30 am – 6 pm Sat: 9:00 am – 12 pm ATM on-site

<b>BRANCH NAME/ BRANCH ADDRESS</b>	<b>COUNTY AND CT INCOME LEVEL</b>	<b>LOBBY HOURS</b>	<b>MOTOR BANK HOURS/ATM</b>
Mansfield 1701 Hwy 287 North Mansfield, TX 76063	Tarrant Middle	Mon.-Thur.: 9:00 am-4 pm Fri.: 9:00 am-6 pm Sat.: Closed	Mon.-Fri.: 7:30 am - 6 pm Sat: 9:00 am – 12 pm ATM on-site
Midtown 2201 Midtown Lane Fort Worth, TX 76104	Tarrant Upper	Mon.-Thur.: 9:00 am-4 pm Fri.: 9:00 am-6 pm Sat.: Closed	Mon.-Fri.: 7:30 am – 6 pm Sat: 9:00 am – 12 pm ATM on-site
Overton Centre-Home Office 4100 International Plaza Fort Worth, TX 76107	Tarrant Moderate	Mon.-Fri.: 9:00 am-5 pm Sat.: Closed	None/ATM on-site
Saginaw 740 S. Saginaw Blvd Saginaw, TX 76179	Tarrant Middle	Mon.-Thur.: 9:00 am-4 pm Fri.: 9:00 am-6 pm Sat.: Closed	Mon.-Fri.: 7:30 am – 6 pm Sat: 9:00 am – 12 pm ATM on-site
Trail Lake 3737 SW Loop 820 Fort Worth, TX 76133	Tarrant Middle	Mon.-Thur.: 9:00 am-4 pm Fri.: 9:00 am-6 pm Sat.: Closed	Mon.-Fri.: 7:30 am – 6 pm Sat: 9:00 am – 12 pm ATM on-site
<b>Limited Service Centers</b>			
Fort Worth-Mortgage 3707 Camp Bowie Blvd Fort Worth, TX 76107	Tarrant Middle	Mon.-Fri.: 8:30 am-5:30 pm	None
*St. Francis (Retirement Facility) 1 Chapel Plaza Crowley, TX 76036	Tarrant Middle	Tues.: 9:00 am-11 am	None
*Watercrest (Retirement Facility) 250 E. Debbie Lane Mansfield, TX 76063	Tarrant Upper	Monday: 10:00 am-12:00 pm	None
<b>Loan Production Centers</b>			
Austin Mortgage 3600 Bee Cave Road Austin, TX 78746	Travis Upper	Mon. & Fri.: 8:30 am-5:30 pm	None

*\*Mobile - limited service center - open accounts; accept deposits, cash checks, setup direct deposit, order checks*

Loan Portfolio

Southwest reported total assets of approximately \$1.7 billion, gross loans of \$1.5 billion, and total equity capital of \$220 million as of December 31, 2015. The following table reflects the loan portfolio mix:

<b>Product</b>	<b>12/31/2015 \$(000's)</b>	<b>% of Loans</b>	<b>12/31/2014 \$(000's)</b>	<b>% of Loans</b>
<u>Real Estate</u>				
1-4 Family Residential Construction Loans	85,923	5.8	66,562	4.9
Other Construction Loans & Land Development & Other	136,031	9.1	146,466	10.7
Farm Land	16,694	1.1	17,361	1.3
1-4 Family – Revolving	6,212	0.4	4,354	0.3
1-4 Family Residential Secured by First Liens	188,766	12.6	166,486	12.2
1-4 Family Residential Secured by Junior Liens	16,448	1.1	16,828	1.2
Multifamily	21,177	1.4	22,573	1.7
Nonfarm Nonresidential	164,669	11.0	137,522	10.1
Loans Secured Owner Occupied Nonfarm Nonresidential				
Loans Secured by Other Nonfarm Nonresidential	463,263	31.0	372,433	27.3
<b>Total Real Estate</b>	<b>1,099,183</b>	<b>73.5</b>	<b>950,585</b>	<b>69.7</b>
Agricultural	604	0.1	681	0.0
Commercial and Industrial	247,888	16.6	307,098	22.5
Non-Depository Institutions	127,072	8.5	88,449	6.5
Consumer	15,227	1.0	15,885	1.1
State and Political Subdivisions	2,106	0.2	2,453	0.1
Other	1,775	0.1	1,254	0.1
<b>Gross Loans</b>	<b>1,493,855</b>	<b>100.0</b>	<b>1,366,405</b>	<b>100.0</b>

As indicated by the table above, the bank's loan portfolio consisted primarily of commercial and residential real estate lending. Southwest originated real estate secured loans with a combined total of \$1.1 billion, representing 73.5% of the loan portfolio by dollar volume. The second largest loan product is commercial and industrial lending representing 16.6% of the loan portfolio by dollar volume and \$247.9 million.

Previous Performance Evaluation

The bank received a Satisfactory rating on its previous CRA performance evaluation dated March 29, 2012 performed by the Federal Reserve Bank of Dallas. The lending test, investment test, and service test were all rated High Satisfactory. The bank has no financial or legal impediments that would prevent it from fulfilling its responsibilities under the CRA. No known legal impediments exist that would restrain the bank from meeting the credit needs of its assessment area.

### **Description of Assessment Area**

The bank's assessment area consists of Tarrant, Johnson, and Dallas Counties in the Dallas-Fort Worth-Arlington, Texas Metropolitan Statistical Area (MSA) (19100). Tarrant and Johnson Counties are part of the Fort Worth-Arlington Metropolitan Division (MD) (23104) and Dallas is part of the Dallas-Plano-Irving MD (19124). Dallas and Tarrant Counties are urbanized areas, while Johnson County is a predominantly rural area. The assessment area is part of the region that is commonly known as the DFW Metroplex, hereafter referred to as the Tarrant-Johnson-Dallas Assessment Area. According to the 2010 Census data, the Dallas-Fort Worth-Arlington MSA is the fourth largest MSA in the nation.

All of the bank's full-service branches are in the bank's delineated assessment area. The Tarrant-Johnson-Dallas Assessment Area consisted of 914 census tracts, as per the 2010 Census. Of the 914 census tracts, 138 were low-income, 284 were moderate-income, and 488 were middle- or upper-income. There were four tracts in the assessment area with an "unknown" income designation. Of the fifteen full service branches, there are six branches located in moderate-income census tracts, five branches in middle-income census tracts, and four branches in upper-income census tracts.

The Bank operates in a competitive banking market due to the significant number of banks operating within the bank's assessment area. As of June 30, 2015, there were 124 insured institutions operating 1,138 banking offices in the assessment area. Southwest is ranked fifteenth with 0.69% of the \$192.4 billion deposit market share. Competitors include large federal banks, regional community state chartered banks, savings banks, mortgage companies, and non-bank financial institutions. The deposit market is dominated by large financial institutions such as Bank of America, N.A., Charlotte, North Carolina, JP Morgan Chase Bank, N.A., Columbus, Ohio, Wells Fargo Bank, N.A., Sioux Falls, South Dakota, and Texas Capital Bank, Dallas, Texas. As of June 30, 2015, these top four banks control 69.5% of the deposit market share.

Demographics and economic information impacting the bank's performance context are further discussed below. Information was obtained from publicly available sources including the U.S. Department of Commerce's Bureau of Census, 2010; the U.S. Department of Labor; and the U.S. Department of Housing and Urban Development (HUD); Dun & Bradstreet (D&B), and the Texas Workforce Commission.

The following table details selected characteristics of the assessment area.

TABLE 1 Dallas, Johnson, and Tarrant Counties 2014 Assessment Area 2014 Assessment Area Demographics								
Income Categories	Tract Distribution		Families By Tract Income		Families < Poverty Level as a % of Families by Tract		Families By Family Income	
	#	%	#	%	#	%	#	%
Low	138	15.1	118,840	11.6	39,467	33.2	270,176	26.4
Moderate	284	31.1	300,486	29.4	54,069	18.0	188,002	18.4
Middle	264	28.9	326,086	31.9	25,128	7.7	190,406	18.6
Upper	224	24.5	278,268	27.2	8,177	2.9	375,105	36.6
Unknown	4	0.4	9	0.0	0	0.0	0	0.0
<b>Total AA</b>	<b>914</b>	<b>100.0</b>	<b>1,023,689</b>	<b>100.0</b>	<b>126,841</b>	<b>12.4</b>	<b>1,023,689</b>	<b>100.0</b>
	Housing Units By Tract	Housing Type By Tract						
		Owner-Occupied			Rental		Vacant	
		#	% By Tract	% By Unit	#	% By Unit	#	% By Unit
Low	225,404	59,729	6.7	26.5	129,421	57.4	36,254	16.1
Moderate	500,309	229,460	25.7	45.9	211,563	42.3	59,286	11.8
Middle	537,061	303,788	34.0	56.6	188,026	35.0	45,247	8.4
Upper	420,862	301,282	33.7	71.6	92,016	21.9	27,564	6.5
Unknown	18	18	0.0	1.0	0	0.0	0	0.0
<b>Total AA</b>	<b>1,683,654</b>	<b>894,277</b>	<b>100.0</b>	<b>53.1</b>	<b>621,026</b>	<b>36.9</b>	<b>168,351</b>	<b>10.0</b>
	Total Businesses by Tract	Businesses By Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low	22,803	9.6	19,368	9.1	2,469	15.5	966	11.5
Moderate	55,386	23.4	48,851	23.0	4,399	27.5	2,136	25.3
Middle	71,383	30.1	64,897	30.6	3,999	25.0	2,487	29.5
Upper	86,700	36.6	78,889	37.1	4,995	31.3	2,816	33.4
Unknown	551	0.2	412	0.2	116	0.7	23	0.3
<b>Total AA</b>	<b>236,823</b>	<b>100.0</b>	<b>212,417</b>	<b>100.0</b>	<b>15,978</b>	<b>100.0</b>	<b>8,428</b>	<b>100.0</b>
<b>Percent of Total Businesses:</b>			89.7		6.7		3.6	
	Total Farms by Tract	Farms By Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low	67	4.0	60	3.7	6	16.7	1	20.0
Moderate	238	14.3	231	14.2	7	19.4	0	0.0
Middle	586	35.2	579	35.7	7	19.4	0	0.0
Upper	772	46.4	752	46.3	16	44.4	4	80.0
Unknown	1	0.1	1	0.1	0	0.0	0	0.0
<b>Total AA</b>	<b>1,664</b>	<b>100.0</b>	<b>1,623</b>	<b>100.0</b>	<b>36</b>	<b>100.0</b>	<b>5</b>	<b>100.0</b>
<b>Percent of Total Farms:</b>			97.5		2.2		0.3	

Based on 2014 Dun & Bradstreet information according to 2010 ACS.



Demographic Characteristics

Certain economic and demographic data is available for analysis for the Dallas-Fort Worth-Arlington, Texas MSA as a whole and not the specific assessment area. However, it is reasonable to believe that the data for the MD/MSA area provides a good representation of the characteristics of the assessment area because the population of the assessment area includes 66.5% of the Dallas-Fort Worth-Arlington, Texas MSA, and distribution of low-, moderate-, middle-, and upper-income families for the two areas is similar according to 2010 census data.

Located in North Texas, this area is part of the region that is commonly known as the DFW Metroplex or DFW area. The cities of Dallas and Fort Worth are the two central cities of the area and are demographically diverse. Listed in the following table is information about population and land area for each county within the Tarrant-Johnson-Dallas Assessment Area, as it relates to statewide ranking.<sup>1</sup>

County	County Seat <sup>2</sup>	Population		Population Density/ sq. mile		Land Area (sq. mile)	
		#	Rank	#	Rank	#	Rank
Dallas	Dallas	2,448,943	2	2,695	1	871	177
Tarrant	Fort Worth	1,881,469	3	2,085	3	864	180
Johnson	Cleburne	153,854	26	209	26	725	210

According to 2010 Census data, the assessment area population was 4,328,107, which accounts for 17.2% of the population in the state. Based on the 2014 population estimate of 4,484,266, the assessment area has experienced an increase of 3.6% since 2010. Dallas, the largest city within the assessment area, and the 3rd largest city in the State of Texas with a 2014 population of 1,201,619, accounts for 26.0% of the population in the assessment area. Other major cities in the assessment area are Fort Worth, Arlington, Garland, and Irving.

Refer to the end of the Performance Context section for more detailed demographic information for the assessment area.

Income Characteristics

According to the 2014 FFIEC Census data, the Tarrant-Johnson-Dallas Assessment Area contained 914 census tracts. The area is made up of approximately 15.1% low- and 31.1% moderate-income census tracts while the remaining were middle-, upper-, and unknown-income census tracts. The assessment area consists of 11.6% low- and 29.4% moderate-income families. Families below the poverty level in the assessment area are at 12.4%, which is below the state average of 13.0%. However, in low- and moderate-income census tracts families below the poverty level are significant at 31.1% and 42.6% respectively, compared to 19.8% and 6.5% for families below the poverty level residing in middle- and upper- income census tracts, respectively. The median family income decreased during the review period. The following charts reflect the estimated median family income for the years 2012-2014 for the assessment area.

<sup>1</sup> Texas Land Area County Rank, USA.com; available from: [www.usa.com/texas-state.htm](http://www.usa.com/texas-state.htm)

<sup>2</sup> Texas State Library – Counties and County Seats; available from: [www.tsl.texas.gov/ref/abouttx/countyseats.html](http://www.tsl.texas.gov/ref/abouttx/countyseats.html)

<b>Dallas-Plano-Irving MD</b>			
<b>Income Level</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Median Income	\$70,600	\$69,000	\$69,100
Low-income	< \$35,300	< \$34,500	< \$34,550
Moderate-income	\$35,300-\$56,479	\$34,500-\$55,199	\$34,550-\$55,279
Middle-income	\$56,480-\$84,719	\$55,200-\$82,799	\$55,280-\$82,919
Upper-income	≥ \$84,720	≥ \$82,800	≥ \$82,920

<b>Fort Worth-Arlington MD</b>			
<b>Income Level</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Median Income	\$69,200	\$65,500	\$68,700
Low-income	< \$34,600	< \$32,750	< \$34,350
Moderate-income	\$34,600-\$55,359	\$32,750-\$52,399	\$34,350-\$54,959
Middle-income	\$55,360-\$83,039	\$52,400-\$78,599	\$54,960-\$82,439
Upper-income	≥ \$83,040	≥ \$78,600	≥ \$82,440

Housing Characteristics

Of total housing in the assessment area, 53.1% of the units are classified as owner-occupied while 36.9% are classified as rental units and 10.0% of the available housing is vacant. Rental units represent 57.4% of housing units in low-income census tracts and 42.3% in moderate-income census tracts.

The following table<sup>3</sup> lists median price of a house, growth rate, and year built, for the period 2010-2014, for counties within the assessment area, the state, and United States. Overall, the price growth rate for Tarrant County and Texas exceeds the national growth rate.

<b>Area</b>	<b>Median Value</b>	<b>Price Growth Rate since 2000</b>	<b>Median Year Built</b>
Dallas	\$129,200	39.3%	1978
Tarrant	\$137,700	52.5%	1985
Johnson	\$114,100	39.3%	1987
Texas	\$131,400	59.3%	1984
National	\$175,700	46.9%	1974

New residential construction in the Dallas-Fort Worth-Arlington MSA has increased considerably since the prior review period. In 2011, new single-family home building permits totaled 15,350. In 2014, new single-family building permits totaled 25,126, an increase of 63.7%. While improving, the house market remains well below where it was before the most recent recession.

<sup>3</sup> Texas Local Data, USA.com; available from: <http://www.usa.com/texas-state.htm>

According to 2010 Census, the median housing value for the Tarrant-Johnson-Dallas Assessment Area in 2010 was \$131,434, compared to \$155,697 for the Dallas-Plano-Irving, TX MD and \$133,767 for Fort Worth-Arlington, TX MD. In 2010, the affordability ratio was 36.6% for the Dallas-Plano-Irving, TX MD and 41.5% for Fort Worth-Arlington, TX MD. The affordability ratio is defined as the median household income divided by the median housing value. The closer the ratio is to 100% the more affordable the homes. A ratio of 100% indicates that median family income is just sufficient to purchase the median priced home. These affordability ratios indicate that the majority of households have less income than necessary to purchase the average house. This can limit a bank's ability to originate HMDA loans in this assessment area.

While home prices are increasing, the Tarrant-Johnson-Dallas Assessment Area still has some of the lowest priced homes in the United States when compared to other larger cities. However, the assessment area is seeing its worst housing shortage in decades. "The tight market and booming population put the pinch on both renters and potential homebuyers. That is particularly true when it comes to affordable housing."<sup>4</sup>

The Tarrant-Johnson-Dallas Assessment Area fared well with the foreclosure crisis; however, the southern sector in Dallas County was hit harder. Foreclosure rates in metropolitan areas in the country ranged from 0.7% to 16.0% throughout the nation in September 2013. The foreclosure rate for the Dallas-Fort Worth-Arlington, TX MSA was 3.1% in September 2013. The percentage of mortgages considered seriously delinquent (defined as more than 90 days past due or in foreclosure) in the Dallas-Fort Worth-Arlington, TX MSA decreased from 3.8% in December 2011 to 2.9% in September 2013.<sup>5</sup>

With home costs and apartment rents in North Texas at record high levels, more and more residents are struggling to pay for housing. While there are about 40,000 apartments being built in North Texas, rents on new units have increased on average to above \$1,200 a month. Those rents are beyond the means of many Dallas-Fort Worth area renters. Almost 43 million U.S. households now live in rental housing, an increase of 9 million in the last decade. More than a third of Americans are now renters, the largest share since the 1960s, according to a new report by the Joint Center for Housing Studies of Harvard University. While rents have soared, household incomes have actually declined since the 1990s. Currently the cost of housing in the DFW area is growing at a multiple of the increase in median incomes. Median home prices have increased more than 30% since the recession.<sup>6</sup>

The median gross monthly rent in 2010 for the Dallas-Plano-Irving, TX MD was \$857, with 45.6% of renters having rents costs greater than 30% of their income. In the Fort Worth-Arlington, TX MD monthly rents were \$831, which is slightly higher than the Texas state average of \$786. In 2010, 45.3% of renters had rent costs greater than 30% of their income.

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<sup>4</sup> Brown, Steve. Affordable-housing Proposals have Dallas Developers Scrambling for Bigger Say – Dallas Morning News August 6, 2014; available from <http://www.dallasnews.com/business/columnists/steve-brown/20150806-affordable-housing-proposals-have-dallas-developers-scrambling-for-bigger-say.ece>

<sup>5</sup> Serious Mortgage Delinquency Data for All 366 U.S. Metropolitan Areas, September 2013; available from; [http://www.foreclosure-response.org/maps\\_and\\_data/metro\\_delinquency\\_data\\_tables.html#map](http://www.foreclosure-response.org/maps_and_data/metro_delinquency_data_tables.html#map)

<sup>6</sup> Brown, Steve – Record Housing Costs Put the Squeeze on DFW Residents April 16, 2016; available from <http://www.dallasnews.com/business/columnists/steve-brown/20160414-record-housing-costs-put-the-squeeze-on-d-fw-residents.ece>

Because there are fewer people buying, the rental market is in high demand, with both rent and construction permits for new multi-family housing rising. Multi-family permits totaled 11,029 in 2011 and 18,520 in 2014 in the Dallas-Fort Worth Arlington, TX MSA. This represents an increase of 40.4%.<sup>7</sup>

Labor, Employment, and Economic Characteristics

The Tarrant-Johnson-Dallas Assessment Area’s economy is highly diverse and is home to some of the nation's largest companies and employers. They range from retail stores, transportation companies, health care systems, financial services, to massive universities and municipalities. Some of the top companies are: Wal-Mart Stores, Inc.; American Airlines Group, Inc.; Texas Health Resources, Lockheed Martin Aeronautics Co.; Baylor Health Care System; Citigroup, and AT&T.<sup>8</sup>

The national average unemployment rates for 2012 through 2014 were higher than the state of Texas. Overall, the MSA as a whole has fared better than the state and nationally. According to the 2010 Census, the unemployment rate for the Tarrant-Johnson-Dallas Assessment Area was 11.8% in low-income census tracts and 9.3% in moderate-income census tracts. The high unemployment rates in low- and moderate-income census tracts could affect loan demand from these census tracts.

The following chart shows unemployment rates relevant to the assessment area for 2012 through 2014.

<b>Unemployment Rates Relative to the Assessment Area<sup>9</sup></b>			
	<b>2012</b>	<b>2013</b>	<b>2014</b>
National	8.1%	7.4%	6.2%
Texas	6.7%	6.2%	5.1%
Dallas County	7.1%	6.5%	5.4%
Johnson County	6.6%	6.1%	5.0%
Dallas-Plano-Irving-TX, MD	6.6%	6.1%	5.0%
Tarrant County	6.5%	6.0%	5.0%
Fort Worth-Arlington TX, MD	6.5%	6.0%	5.0%
Dallas-Fort Worth-Arlington TX, MSA	6.6%	6.1%	5.0%

<sup>7</sup> Texas A&M Real Estate Center Data – Building Permits available from; [www.recenter.tamu.edu/data/building-permits](http://www.recenter.tamu.edu/data/building-permits).

<sup>8</sup> Dallas Office of Economic Development; available from [www.dallas-ecodev.org/wp-content/uploads/2012/04/top\\_employers.pdf](http://www.dallas-ecodev.org/wp-content/uploads/2012/04/top_employers.pdf)

<sup>9</sup> Bureau of Labor Statistics - Unemployment Rate (annual average, not seasonally adjusted) available from; <http://data.bls.gov/cgi-bin/dsrv?la>.

### Community Contacts and Credit Needs

Contact was made with community leaders working for one community service organization and two affordable housing organizations. These contacts identified the credit needs in the community as small dollar personal loans to manage expenses, and financing for the construction of affordable housing. Beneficial services needed include increased support of first time homebuyer education, credit counseling, and financial literacy programs.

### **Scope of Examination**

The Bank was evaluated using the Interagency Examination Procedures for Large Retail Institutions, developed by the Federal Financial Institutions Examination Council. In accordance with these procedures, Home Mortgage Disclosure Act (HMDA), small business, and small farm lending activities reported by the bank from January 1, 2012 through December 31, 2014 were reviewed. The activity includes all loans originated and purchased by the bank. Community development loans, qualified investments, and community development services are also considered for activities since the last evaluation. This information applies throughout the remainder of the evaluation, unless specifically noted otherwise.

### Examination Review Period and Products Reviewed

Examiners evaluated home purchase, refinance, home improvement, and CRA-reportable small business loans during this examination. Due to its significance in the portfolio, HMDA lending received the greatest weight in terms of products reviewed. The bank originated or purchased 1,818 loans or approximately 60.2% of these types of loans for \$477.8 million inside its assessment area during the review period. Southwest made a minimal number of CRA-reportable small farm, and multifamily loans, in line with its business strategy. Due to their limited volumes, these products were excluded from the analysis of the bank's lending performance.

Community development loans, investments, and service activities from March 29, 2012 through April 10, 2016 were considered during this examination. In addition, the examination also considered prior period investments.

### Examination Analysis

The evaluation of the bank's record of lending in the assessment area includes the use of and comparison to demographic characteristics. The primary sources for the demographic information are the 2010 U.S. Census and D&B data. Demographic characteristics of a particular assessment area are useful in analyzing the bank's record of lending as they provide a means of estimating loan demand and identifying lending opportunities. To understand small business and small farm loan demand, self-reported data of revenue size and geographical location from business and farm entities is collected and published by D&B. The demographic data should not be construed as defining an expected level of lending in a particular area or to a particular group of borrowers. The information is used to understand the bank's performance context and evaluate the bank.

Loans are evaluated to determine the lending activity inside and outside the bank's assessment area. In addition, loans inside the assessment area are evaluated on the geographic and borrower-income distribution for each assessment area. The bank's geographic distribution with respect to HMDA loans is assessed by comparing the percentages of loans made in each geography type (low-, moderate-, middle-, and upper-income) to their percentage of owner-occupied units in each geography type. Small business loans were compared to the percentage of small businesses and farms within each geographic income category.

The bank's borrower income distribution with respect to HMDA loans is assessed by comparing the percentage of loans made to borrowers in each income category (low-, moderate-, middle-, and upper-income) to the percentage of families in each income category. Poverty level is determined by both income and family size. Generally, a larger proportion of poverty level families are in the low-income category and, to a certain extent, the moderate-income categories. Borrowers at poverty level often do not qualify for real estate loans, so the percentage of families below the poverty level is considered when evaluating lending performance to LMI borrower.

The bank's borrower income distribution with respect to small business loans was assessed by comparing the percentage of loans made to business in each revenue category (less than or equal to \$1 million, or greater than \$1 million) to the percentage of total businesses in each revenue category.

The bank's lending performance was compared to the performance of aggregate lenders in 2012, 2013, and 2014. Aggregate lenders include all lenders required to report HMDA and CRA data within the respective assessment areas. Commercial credit card loans are included in many aggregate lenders' CRA loans numbers, which is a product not directly offered by the bank. The bank's lending performance for HMDA and CRA loans was also compared to the demographic numbers within the assessment areas for both the geographic distribution and borrower profile analyses and considered when forming calculations. The bank's market share of lending is also discussed to give a better understanding of how the bank ranks within the respective areas. For both the geographic distribution and borrower income analyses, the bank's lending performance was evaluated by dollar amount and percentage by number. Unless otherwise specified, the percentages throughout the performance evaluations represent the bank's lending by number of loans originated.

#### Deriving Overall Conclusions

Before reaching a conclusion about the overall performance regarding geographic distribution and borrower characteristics in the assessment area, examiners weighted loan products by the total retail lending volume in order to determine the influence of performance on the overall conclusion. Peer data was also used for the analysis of community development loans and qualified investments. Local peer banks were selected based on their amounts of assets, deposits, and branches and their presence within the Southwest's assessment area.

Examiners also conducted three interviews with community representatives during the review period in order to understand community credit needs. Community contacts served populations throughout the assessment area and included representatives of community-based organizations. The organizations specialize in community services, affordable housing, and homeowner

counseling for low- and moderate- income individuals. Community contacts indicated a need for affordable housing, financial literacy, and targeted banking products to assist low- and moderate-income people as community priorities and areas of opportunity for local financial institutions' participation.

### **Conclusions With Respect to Performance Tests**

#### **Lending Test**

The bank's overall Lending Test rating is High Satisfactory. Lending activity reflects good responsiveness to assessment area credit needs. The geographic distribution of loans reflects excellent penetration throughout the assessment area. . In addition, the distribution of borrowers reflects adequate penetration among borrowers of different income levels and businesses of different revenue sizes. Additionally, the bank makes a relatively high level of community development loans.

The bank is both a small business and HMDA lender. During the review period, the bank reported 1,192 (39.6%) small business loans compared to 1,818 (60.4%) HMDA loans in the Tarrant-Johnson-Dallas assessment area. Therefore, small business lending was given less weight than HMDA lending in determining the bank's Lending Test rating in the assessment area.

References are made to the bank's lending distribution by geography and borrower income throughout this report.

#### **Lending Activity**

The bank's lending levels reflects good responsiveness to assessment area credit needs. The following table summarizes the lending activity from January 1, 2012 through December 31, 2014. The bank originated a total of 4,274 HMDA, small business, and small farm loans for a total dollar volume of approximately \$1.1 billion during the review period.

As the data indicates, the bank makes more HMDA-related loans than other types of loans. The bank originated 2,887 HMDA-related loans compared to 1,387 small business and small farm loans during the review period. Small farm lending will not be discussed separately in the remainder of the report due to the limited significance of this product line in the bank's urban market. Only 22, or less than 1%, of such loans were originated by the bank during the review period.

In addition to its HMDA and small business lending, the bank extended a relatively high number and dollar volume of community development loans, which were highly responsive to the affordable housing needs and revitalization and stabilization of the assessment area.

<b>TABLE 2</b>				
<b>Summary of Loans Reviewed</b>				
<b>(years 2012, 2013, and 2014)</b>				
<b>Loan Type</b>	<b>#</b>	<b>\$(000s)</b>	<b># %</b>	<b>\$ %</b>
Home Purchase	1,595	389,181	37.3	36.0
Refinancing	1,107	304,217	25.9	28.2
Home Improvement	170	26,477	4.0	2.5
Multi-Family Housing	15	45,169	0.4	4.2
<b>Total HMDA-Related</b>	<b>2,887</b>	<b>765,044</b>	<b>67.6</b>	<b>70.9</b>
<b>Small Business</b>	<b>1,365</b>	<b>312,358</b>	<b>31.9</b>	<b>28.9</b>
<b>Small Farm</b>	<b>22</b>	<b>2,363</b>	<b>0.5</b>	<b>0.2</b>
<b>Total Loans</b>	<b>4,274</b>	<b>1,079,765</b>	<b>100.0</b>	<b>100.0</b>

Lending in Assessment Area

A high percentage of loans are made in the bank's assessment area. The table below shows the distribution of loans inside and outside the bank's assessment area. From January 1, 2012 to December 31, 2014, the bank extended 3,020, or 70.7%, of its total loans to individuals residing and businesses operating in the assessment area. In particular, 63.0% of HMDA-related loans and 87.3% of small business loans by number were made in the bank's assessment area.

<b>TABLE 3</b>								
<b>Lending Inside and Outside the Bank's AA</b>								
<b>Bank Loans</b>	<b>Inside</b>				<b>Outside</b>			
	<b>#</b>	<b>\$(000s)</b>	<b># %</b>	<b>\$ %</b>	<b>#</b>	<b>\$(000s)</b>	<b># %</b>	<b>\$ %</b>
Home Purchase - Conventional	936	236,053	64.2	64.3	523	130,813	35.8	35.7
Home Purchase - FHA	88	13,111	65.2	60.7	47	8,485	34.8	39.3
Home Purchase - VA	1	719	100.0	100.0	0	0	0.0	0.0
Refinancing	639	180,918	57.7	59.5	468	123,299	42.3	40.5
Home Improvement	141	22,583	82.9	85.3	29	3,894	17.1	14.7
Multi-Family Housing	13	24,462	86.7	54.2	2	20,707	13.3	45.8
<b>Total HMDA-Related</b>	<b>1,818</b>	<b>477,846</b>	<b>63.0</b>	<b>62.5</b>	<b>1,069</b>	<b>287,198</b>	<b>37.0</b>	<b>37.5</b>
<b>Small Business</b>	<b>1,192</b>	<b>266,323</b>	<b>87.3</b>	<b>85.3</b>	<b>173</b>	<b>46,035</b>	<b>12.7</b>	<b>14.7</b>
<b>Small Farm</b>	<b>10</b>	<b>1,246</b>	<b>45.5</b>	<b>52.7</b>	<b>12</b>	<b>1,117</b>	<b>54.5</b>	<b>47.3</b>
<b>TOTAL LOANS</b>	<b>3,020</b>	<b>745,415</b>	<b>70.7</b>	<b>69.0</b>	<b>1,254</b>	<b>334,350</b>	<b>29.3</b>	<b>31.0</b>



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

The distribution of borrowers reflects, given the product lines offered, adequate penetration among customers of different income levels and businesses of different revenue sizes. An analysis of HMDA and small business lending data was conducted in conjunction with a review of the demographic and economic characteristics of the assessment area to ascertain the extent of lending to borrowers of different income levels and to businesses of different revenue sizes.

#### Residential Real Estate (HMDA) Lending

The bank's distribution of HMDA loans in the assessment area reflects adequate penetration among borrowers of different income levels. The bank's performance incorporates the high level of competition in the assessment area, and is better represented by comparing performance against aggregate lenders, than the census demographics for families. In addition, as discussed above, housing affordability in the assessment area is low, impacting the ability for lenders to originate loans. During the review period, 56.4% of the bank's HMDA lending was comprised of home purchase loans, resulting in greater weight for this analysis.

#### Home Mortgage Loans (HMDA Combined)

In 2012, the bank originated 7.3% of its loans to low-income borrowers, which is less than the percentage of low-income families in the assessment area but exceeds lending levels of aggregate lenders. Moderate-income borrowers represented 6.3% of the total mortgage lending, which is less than the percentage of moderate-income families and aggregate lending. The bank's lending to middle-income borrowers was less than the percentage of middle-income families as well as aggregate lending levels. The bank's lending to upper-income borrowers exceeded both the percentage of families considered upper-income and aggregate lender performance.

In 2013, the bank originated 2.7% of its loans to low-income borrowers, which is less than the census demographic and levels of aggregate lenders. Loans to moderate-income borrowers represented 6.9% of total mortgage lending, which is less than the percentage of moderate-income families and aggregate lender performance. The bank's lending to middle-income borrowers was less than the percentage of middle-income families as well as aggregate lending levels. The bank's lending to upper-income borrowers exceeded both the percentage of families considered upper-income and the aggregate lender performance.

In 2014, the bank originated 10.1% of its loans to low-income borrowers. The bank's lending performance was less than the percentage of low-income families, but exceeded the performance of aggregate lenders. Conversely, the lending performance to moderate- and middle-income borrowers was less than both the percentage of borrowers and the performance of aggregate lenders in the assessment area. The bank's lending to upper-income borrowers exceeded both the percentage of families considered upper-income and aggregate lender performance.

## Home Purchase Loans

Southwest's home purchase lending performance was excellent throughout the review period.

In 2012, the bank's lending performance to low-income borrowers exceeded the performance of aggregate lenders. Conversely, aggregate lenders outperformed the bank's lending performance to moderate-income borrowers in the assessment area. Based on census demographics, both the bank and aggregate lenders performed less favorably than the percentage of low- and moderate-income families in the assessment area. The bank's lending performance to middle-income borrowers was less favorable when compared to the aggregate and to the percentage of middle-income families in the assessment area, whereas the bank's lending to upper-income borrowers exceeded both performance measures.

In 2013, the bank's lending performance to low-, moderate-, and middle-income borrowers was less favorable to the performance of aggregate lenders and the percentage of low-, moderate-, and middle-income families in the assessment area. For lending to upper-income borrowers, the bank exceeded the performance of aggregate lenders and the percentage of upper-income families in the assessment area.

In 2014, the bank's lending performance to low-income borrowers exceeded the performance of aggregate lenders, but performed less favorably in lending to moderate-income borrowers. Both the bank and aggregate lenders performed less favorably than the percentage of low- and moderate-income families in the assessment area. The bank's lending performance to middle-income borrowers was less favorable when compared to the aggregate and the middle-income families in the assessment area, whereas the bank's lending to upper-income borrowers exceeded both the aggregate lenders and census demographic of upper-income families in the assessment area.

## Refinance Loans

In 2012, the bank originated 14.5% of refinance loans to low-, moderate-, and middle-income borrowers combined. For each income level, the bank performed less favorably when compared to aggregate lending and to the percentage of families in the assessment area. For lending to upper-income borrowers, the bank exceeded the performance of aggregate lenders and the percentage of upper-income families in the assessment area.

Similarly for refinance lending in the subsequent years, 2013 and 2014, the bank performed less favorably when compared to the performance of aggregate lenders and to the percentage of low-, moderate-, and middle-income families in the assessment area. The bank's lending performance to upper-income borrowers exceeded the performance of aggregate lenders and the percentage of upper-income families in the assessment area.

## Home Improvement Loans

In 2012, the bank originated one home improvement loan to low-income borrowers, and three to moderate-income borrowers. For both low- and moderate-income borrowers categories, the bank performed less favorably compared to aggregate lenders and the percentage of low- and moderate-income families in the assessment area. Similarly, the lending performance to middle-income borrowers was less favorable when compared to aggregate lenders and the census demographic. For upper-income borrowers, the bank's lending performance exceeded the aggregate lending performance and percentage of upper-income families.

In 2013, the bank's lending performance to low-income borrowers was less favorable when compared to the performance of aggregate lenders and to the census demographic. Conversely, the bank's lending performance to moderate-income borrowers exceeded both the performance of aggregate lenders and the percentage of moderate-income families in the assessment area. For lending to middle-income borrowers, the bank's performance was less favorable when compared to the aggregate and to the middle-income families in the assessment area, whereas the bank's lending to upper-income borrowers exceeded both performance measures.

In 2014, the bank's lending performance to low-, moderate-, and middle-income borrowers was less favorable when compared to the performance of aggregate lenders and to the percentage of these families in the assessment area. The bank's lending performance to upper-income borrowers exceeded the performance of aggregate lenders and the percentage of upper-income families in the assessment area.

## Multi-family Loans

The bank's lending distribution of multi-family loans by borrower income was not analyzed since the loans made during the review period were all to borrowers with unknown income levels.

<b>TABLE 4</b>							
<b>Distribution of 2012 HMDA Loans by Borrower Income Levels</b>							
<b>Dallas, Johnson, and Tarrant Counties 2012 Assessment Area</b>							
<b>Borrow Income Level</b>	<b>Bank Loans</b>				<b>Aggregate HMDA Data<sup>1</sup></b>		<b>% of Families<sup>2</sup></b>
	<b>#</b>	<b>\$(000s)</b>	<b># %</b>	<b>\$ %</b>	<b># %</b>	<b>\$ %</b>	
<b>Home Purchase Loans</b>							
Low	54	3,551	13.5	4.1	8.9	4.3	26.6
Moderate	38	4,024	9.5	4.6	19.5	12.8	18.4
Middle	34	5,643	8.5	6.4	18.9	16.2	18.6
Upper	240	67,633	59.9	77.3	37.9	55.3	36.4
Unknown	35	6,674	8.7	7.6	14.8	11.5	0.0
Total	401	87,525	100.0	100.0	100.0	100.0	100.0
<b>Refinanced Loans</b>							
Low	6	369	1.6	0.3	3.9	1.8	26.6
Moderate	12	1,479	3.2	1.3	10.0	5.6	18.4
Middle	37	5,594	9.7	5.1	15.6	10.9	18.6
Upper	305	99,159	80.3	89.8	50.4	65.1	36.4
Unknown	20	3,841	5.3	3.5	20.0	16.5	0.0
Total	380	110,442	100.0	100.0	100.0	100.0	100.0
<b>Home Improvement Loans</b>							
Low	1	2	1.9	0.0	5.1	1.8	26.6
Moderate	3	125	5.8	1.3	13.1	5.4	18.4
Middle	2	119	3.8	1.2	20.5	11.1	18.6
Upper	45	9,250	86.5	93.9	56.1	71.8	36.4
Unknown	1	360	1.9	3.7	5.2	9.9	0.0
Total	52	9,856	100.0	100.0	100.0	100.0	100.0
<b>Total Home Mortgage Loans</b>							
Low	61	3,922	7.3	1.8	6.1	2.7	26.6
Moderate	53	5,628	6.3	2.6	14.2	8.2	18.4
Middle	73	11,356	8.7	5.3	17.1	12.5	18.6
Upper	590	176,042	70.5	82.5	45.0	57.8	36.4
Unknown	60	16,447	7.2	7.7	17.5	18.8	0.0
Total	837	213,395	100.0	100.0	100.0	100.0	100.0
<sup>1</sup> Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA LAR filers. <sup>2</sup> The percentage of families is based on 2010 ACS 5-year estimates. (NOTE: Total percentages may vary due to automated rounding differences.)							

<b>TABLE 5</b>							
<b>Distribution of 2013 HMDA Loans by Borrower Income Levels Dallas, Johnson, and Tarrant Counties 2013 Assessment Area</b>							
<b>Borrower Income Level</b>	<b>Bank Loans</b>				<b>Aggregate HMDA Data<sup>1</sup></b>		<b>% of Families<sup>2</sup></b>
	<b>#</b>	<b>\$(000s)</b>	<b># %</b>	<b>\$ %</b>	<b># %</b>	<b>\$ %</b>	
<b>Home Purchase Loans</b>							
Low	9	608	2.9	0.8	6.2	2.8	26.6
Moderate	22	2,172	7.1	2.8	17.3	10.7	18.4
Middle	52	9,170	16.7	11.8	18.7	15.1	18.6
Upper	199	60,847	63.8	78.2	42.6	59.4	36.4
Unknown	30	5,045	9.6	6.5	15.1	12.0	0.0
<b>Total</b>	<b>312</b>	<b>77,842</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Refinanced Loans</b>							
Low	4	382	2.0	0.7	4.5	1.5	26.6
Moderate	6	510	3.0	0.9	10.2	4.2	18.4
Middle	18	2,500	9.0	4.6	15.7	7.8	18.6
Upper	156	48,378	78.0	88.4	46.1	43.1	36.4
Unknown	16	2,934	8.0	5.4	23.4	43.4	0.0
<b>Total</b>	<b>200</b>	<b>54,704</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Home Improvement Loans</b>							
Low	2	6	4.8	0.2	7.1	1.8	26.6
Moderate	10	302	23.8	10.4	13.8	4.6	18.4
Middle	4	49	9.5	1.7	17.8	10.1	18.6
Upper	22	2,339	52.4	80.4	56.5	75.1	36.4
Unknown	4	212	9.5	7.3	4.8	8.4	0.0
<b>Total</b>	<b>42</b>	<b>2,908</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Total Home Mortgage Loans</b>							
Low	15	996	2.7	0.7	5.4	2.0	26.6
Moderate	38	2,984	6.9	2.2	13.9	6.7	18.4
Middle	74	11,719	13.4	8.7	17.2	10.4	18.6
Upper	377	111,564	68.1	82.4	44.5	47.6	36.4
Unknown	50	8,191	9.0	6.0	19.0	33.3	0.0
<b>Total</b>	<b>554</b>	<b>135,454</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<sup>1</sup> Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA LAR filers. <sup>2</sup> The percentage of families is based on 2010 ACS 5-year estimates. (NOTE: Total percentages may vary due to automated rounding differences.)							

<b>TABLE 6</b>							
<b>Distribution of 2014 HMDA Loans by Borrower Income Levels</b>							
<b>Dallas, Johnson, and Tarrant Counties 2014 Assessment Area</b>							
<b>Borrow Income Level</b>	<b>Bank Loans</b>				<b>Aggregate HMDA Data<sup>1</sup></b>		<b>% of Families<sup>2</sup></b>
	<b>#</b>	<b>\$(000s)</b>	<b># %</b>	<b>\$ %</b>	<b># %</b>	<b>\$ %</b>	
<b>Home Purchase Loans</b>							
Low	37	2,486	11.9	2.9	5.7	2.6	26.4
Moderate	25	2,658	8.0	3.1	15.5	9.5	18.4
Middle	39	5,920	12.5	7.0	18.2	14.7	18.6
Upper	134	59,117	42.9	69.9	40.1	55.9	36.6
Unknown	77	14,335	24.7	17.0	20.4	17.4	0.0
Total	312	84,516	100.0	100.0	100.0	100.0	100.0
<b>Refinanced Loans</b>							
Low	2	123	3.4	0.8	6.1	2.9	26.4
Moderate	6	681	10.2	4.3	12.1	6.9	18.4
Middle	8	992	13.6	6.3	16.4	11.6	18.6
Upper	42	13,891	71.2	88.1	38.7	55.4	36.6
Unknown	1	85	1.7	0.5	26.6	23.3	0.0
Total	59	15,772	100.0	100.0	100.0	100.0	100.0
<b>Home Improvement Loans</b>							
Low	4	15	8.5	0.2	8.8	2.3	26.4
Moderate	2	11	4.3	0.1	12.1	5.1	18.4
Middle	4	20	8.5	0.2	16.5	9.6	18.6
Upper	30	8,448	63.8	86.0	50.4	73.3	36.6
Unknown	7	1,325	14.9	13.5	12.2	9.8	0.0
Total	47	9,819	100.0	100.0	100.0	100.0	100.0
<b>Total Home Mortgage Loans</b>							
Low	43	2,624	10.1	2.0	5.9	2.4	26.4
Moderate	33	3,350	7.7	2.6	14.3	7.8	18.4
Middle	51	6,932	11.9	5.4	17.6	12.4	18.6
Upper	206	81,456	48.2	63.1	40.0	50.3	36.6
Unknown	94	34,635	22.0	26.8	22.2	27.2	0.0
Total	427	128,997	100.0	100.0	100.0	100.0	100.0
<sup>1</sup> Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA LAR filers. <sup>2</sup> The percentage of families is based on 2010 ACS 5-year estimates. (NOTE: Total percentages may vary due to automated rounding differences.)							

### Small Business Loans

The distribution of commercial loans to businesses of different revenue sizes is good. To determine the bank's performance, the bank's small business lending is compared to the number of small businesses located in the assessment area. CRA defines a small business as a business with annual gross revenue of \$1 million or less.

According to D&B, in 2014, approximately 89.7% of the businesses in the assessment area were small businesses with gross annual revenues of \$1 million or less. In 2012, the bank originated 409 business loans, of which, 61.6% by number volume, were originated to businesses with gross annual revenues of \$1 million or less. In 2013, 54.1% of the bank's business loans were to small businesses. In 2014, the bank originated 384 business loans, of which, 52.1% were originated to small businesses. This performance compares favorably to the performance of aggregate lenders.

<b>TABLE 7</b>							
<b>Distribution of 2012 Business Loans by Revenue Size</b>							
<b>Dallas, Johnson, and Tarrant Counties 2012 Assessment Area</b>							
<b>Business Revenue by Size<sup>1</sup></b>	<b>Bank Loans</b>				<b>Aggregate CRA Data<sup>2</sup></b>		<b>% of Businesses<sup>3</sup></b>
	<b>#</b>	<b>\$(000s)</b>	<b># %</b>	<b>\$ %</b>	<b># %</b>	<b>\$ %</b>	
\$1MM or less	252	45,150	61.6	52.7	40.1	31.2	90.7
Over \$1MM	150	40,039	36.7	46.8	Not Reported		5.6
Not Known	7	436	1.7	0.5			3.7
<b>Total</b>	<b>409</b>	<b>85,625</b>	<b>100.0</b>	<b>100.0</b>			<b>100.0</b>

<sup>1</sup> This analysis focuses on the bank's lending to "small businesses" as defined by the CRA, which are those businesses with gross annual revenues of \$1 million or less.  
<sup>2</sup> Aggregate loan data reflects all loan originations in the bank's AA reported by all CRA filers. CRA data reports only business loans in amounts of \$1 million or less.  
<sup>3</sup> The percentage of businesses in the AA is based on 2012 Dun & Bradstreet Data.  
(NOTE: Total percentages may vary due to automated rounding differences.)

<b>TABLE 8</b>							
<b>Distribution of 2013 Business Loans by Revenue Size</b>							
<b>Dallas, Johnson, and Tarrant Counties 2013 Assessment Area</b>							
<b>Business Revenue by Size<sup>1</sup></b>	<b>Bank Loans</b>				<b>Aggregate CRA Data<sup>2</sup></b>		<b>% of Businesses<sup>3</sup></b>
	<b>#</b>	<b>\$(000s)</b>	<b># %</b>	<b>\$ %</b>	<b># %</b>	<b>\$ %</b>	
\$1MM or less	216	42,699	54.1	49.4	46.1	31.9	90.2
Over \$1MM	165	39,876	41.4	46.1	Not Reported		6.2
Not Known	18	3,859	4.5	4.5			3.6
<b>Total</b>	<b>399</b>	<b>86,434</b>	<b>100.0</b>	<b>100.0</b>			<b>100.0</b>

<sup>1</sup> This analysis focuses on the bank's lending to "small businesses" as defined by the CRA, which are those businesses with gross annual revenues of \$1 million or less.  
<sup>2</sup> Aggregate loan data reflects all loan originations in the bank's AA reported by all CRA filers. CRA data reports only business loans in amounts of \$1 million or less.  
<sup>3</sup> The percentage of businesses in the AA is based on 2013 Dun & Bradstreet Data.  
(NOTE: Total percentages may vary due to automated rounding differences.)

<b>TABLE 9</b>							
<b>Distribution of 2014 Business Loans by Revenue Size</b>							
<b>Dallas, Johnson, and Tarrant Counties 2014 Assessment Area</b>							
<b>Business Revenue by Size<sup>1</sup></b>	<b>Bank Loans</b>				<b>Aggregate CRA Data<sup>2</sup></b>		<b>% of Businesses<sup>3</sup></b>
	<b>#</b>	<b>\$(000s)</b>	<b># %</b>	<b>\$ %</b>	<b># %</b>	<b>\$ %</b>	
\$1MM or less	200	47,536	52.1	50.4	44.8	30.7	89.7
Over \$1MM	158	43,359	41.1	46.0	Not Reported		6.7
Not Known	26	3,369	6.8	3.6			3.6
<b>Total</b>	<b>384</b>	<b>94,264</b>	<b>100.0</b>	<b>100.0</b>			<b>100.0</b>

<sup>1</sup> This analysis focuses on the bank's lending to "small businesses" as defined by the CRA, which are those businesses with gross annual revenues of \$1 million or less.  
<sup>2</sup> Aggregate loan data reflects all loan originations in the bank's AA reported by all CRA filers. CRA data reports only business loans in amounts of \$1 million or less.  
<sup>3</sup> The percentage of businesses in the AA is based on 2014 Dun & Bradstreet Data.  
(NOTE: Total percentages may vary due to automated rounding differences.)

The adequacy of the bank's small business lending performance can also be gauged by a review of its loan amount data. Small businesses typically require smaller dollar credits. In this regard, it is noted that for the years 2012, 2013 and 2014 combined, 52.3% of the bank's commercial loans were made in loan amounts of \$100,000 less. The bank's performance was less favorable when compared to the aggregate performance; however, it should be noted the bank's competition comes mainly from larger statewide, multi-regional, or nationwide banks.



<b>Distribution of 2012 Commercial Loans by Loan Amount</b>				
<b>Tarrant-Johnson-Dallas Assessment Area</b>				
<b>Loan Amount</b>	<b>Commercial Lending</b>			
	<b>#</b>	<b># %</b>	<b>\$0</b>	<b>\$ %</b>
\$100,000 or less	235	57.5%	11,480	13.4%
\$100,001 - \$250,000	64	15.6%	11,808	13.8%
\$250,001 - \$1,000,000	110	26.9%	62,337	72.8%
Over \$1,000,000	0	0.0%	0	0.0%
<b>Total</b>	<b>409</b>	<b>100.0%</b>	<b>85,625</b>	<b>100.0%</b>

<b>Distribution of 2013 Commercial Loans by Loan Amount</b>				
<b>Tarrant-Johnson-Dallas Assessment Area</b>				
<b>Loan Amount</b>	<b>Commercial Lending</b>			
	<b>#</b>	<b># %</b>	<b>\$0</b>	<b>\$ %</b>
\$100,000 or less	206	51.6%	10,345	12.0%
\$100,001 - \$250,000	81	20.3%	14,785	17.1%
\$250,001 - \$1,000,000	112	28.1%	61,304	70.9%
Over \$1,000,000	0	0.0%	0	0.0%
<b>Total</b>	<b>399</b>	<b>100.0%</b>	<b>86,434</b>	<b>100.0%</b>

<b>Distribution of 2014 Commercial Loans by Loan Amount</b>				
<b>Tarrant-Johnson-Dallas Assessment Area</b>				
<b>Loan Amount</b>	<b>Commercial Lending</b>			
	<b>#</b>	<b># %</b>	<b>\$0</b>	<b>\$ %</b>
\$100,000 or less	183	47.7%	8,890	9.4%
\$100,001 - \$250,000	78	20.3%	14,476	15.4%
\$250,001 - \$1,000,000	123	32.0%	70,898	75.2%
Over \$1,000,000	0	0.0%	0	0.0%
<b>Total</b>	<b>384</b>	<b>100.0%</b>	<b>94,264</b>	<b>100.0%</b>

### Geographic Distribution of Lending

The geographic distribution by the income level of geographies within the assessment area is excellent. Loans were generally made in close proximity to the bank's branches and there were no conspicuous gaps or anomalies in the lending patterns. For this analysis, the geographic distribution of the bank's lending was compared to available occupancy levels and aggregate lending data. Other factors such as population trends were also considered when assessing performance. Furthermore, it is noted that the bank's branch presence makes up less than 2.0% of all financial institution branches in the market area that Southwest operates in.

#### Residential Real Estate (HMDA) Lending

The geographic distribution of loans reflects good penetration throughout the assessment area, including low- and moderate-income geographies. The bank's performance incorporates the high level of competition in the assessment area, and its loan demand is better represented by comparing the bank's performance against aggregate lenders, rather than the census demographics for owner-occupied units. As mentioned in the previous section, 56.4% of the bank's HMDA lending was comprised of home purchase loans, resulting in greater weight for the analysis.

#### Home Mortgage Loans (HMDA combined)

In 2012, the bank originated 1.1% of its total home mortgage loans in low-income geographies, which is less than the lending performance of aggregate lenders, and less than the percentage of owner-occupied units in low-income census tracts in the assessment area. The bank originated 13.5% of its loans in moderate-income census tracts, which exceeds the performance of aggregate lenders, but is less than the percentage of owner-occupied units in moderate-income census tracts. The bank's lending in middle-income census tracts was less than the performance of aggregate lenders and percent of owner-occupied units in the area. However, the bank's lending in upper-income geographies was greater than the percentage of owner-occupied units in the area and the aggregate performance.

In 2013, the bank originated 2.5% of its total home mortgage loans in low-income geographies, and 14.8% of its total home mortgage loans in moderate-income geographies. While these percentages are less than the percentage of owner-occupied units in low- and moderate-income census tracts, the bank exceeded aggregate performance for lending in these areas. Lending in middle-income geographies was less than the percentage of owner-occupied units in the area as well as aggregate lending levels. The bank's lending in upper-income geographies was greater than the percentage of owner-occupied units in the area and aggregate lender performance.

In 2014, the bank's total home mortgage lending percentage in low- and moderate-income geographies improved to 3.7% and 19.4%, respectively. The bank's performance was less than the percentage of owner occupied units in the assessment area, but exceeded aggregate lending levels. Lending in middle-income geographies was comparable to both the percentage of owner-occupied units in the area and aggregate lending levels. The bank's lending in upper-income

geographies exceeded the percentage of owner-occupied units and was less than the aggregate performance.

### Home Purchase Loans

In 2012, the bank originated 1.2% of its home purchase loans in the low-income geographies; however, aggregate lenders only originated 2.6% of their loans in low-income geographies, possibly indicating low loan demand. The low number of home purchase loans in low-income census tracts correlates with the percentage of rental units in the assessment area's low-income census tracts. According to the FFIEC Census Data, 57.4% of housing units in low-income geographies were rental units, while only 26.5% of the units were owner-occupied. The bank originated 20.0% of its home purchase loans in moderate-income geographies, which is less than the percentage of owner-occupied units in the area, but exceeds aggregate lending levels. Lending in middle-income geographies was less than the owner-occupancy rate in those geographies and aggregate lender performance. The bank's lending in upper-income geographies was greater than the census tract demographic, but less than the performance of aggregate lenders.

In 2013, the bank originated 2.2% of its home purchase loans in the low-income geographies. The bank's performance is less than the 2.5% of aggregate lenders, and the census demographic of 6.7%. The low performance percentages reflect the low loan demand for home purchase loans in the geography. In moderate- and middle-income geographies, the bank's performance was less than both the aggregate lender performance and the census demographic. The bank's performance in upper-income geographies exceeded the percentage of home purchase loans made by aggregate lenders and the percentage of owner-occupied units in these census tracts.

In 2014, the bank's lending performance in low- and moderate-income census tracts exceeded the performance of aggregate lenders, but was less than the percentage of owner-occupied units. The bank's performance in middle-income geographies exceeded the performance of aggregate lenders and the census demographic. In upper-income census tracts, bank performance was less than aggregate lenders, but exceeded the percentage of owner-occupied units in these census tracts.

### Home Refinance Loans

In 2012, the bank's lending performance in both low- and moderate-income census tracts was less than the performance of aggregate lenders and the corresponding census demographic. The bank's lending in middle-income geographies exceeded the performance of aggregate lenders, but was less than the percentage of owner-occupied units. For upper-income geographies, the bank's performance exceeded both performance measures.

In 2013, the bank's home refinance lending performance in low-income census tracts exceeded the aggregate's lending performance, but was less than the percentage of owner-occupied units. For lending to moderate- and middle-income census tracts, the bank's performance was less than both the aggregate lender's performance and the percentage of owner-occupied units. The

bank's lending performance to upper-income geographies exceeded both the aggregate lender performance and the census demographic.

In 2014, the bank's lending performance in low-, moderate-, and middle-income geographies was less than the performance of aggregate lenders and the percentage of owner-occupied units. In the upper-income census tracts, the bank exceeded the lending performance of both the aggregate lenders and the percentage of owner-occupied units.

#### Home Improvement Loans

In 2012, the bank's lending performance in low-, moderate-, and middle-income geographies was less than the performance of aggregate lenders and the census demographic of owner-occupied units. The bank exceeded the lending performance of aggregate lenders and the percentage of owner-occupied units in upper-income census tracts.

In 2013, the bank home improvement lending performance in low-income census tracts was less than the performance of aggregate lenders and the percentage of owner-occupied units. The bank's performance in moderate-income census tracts exceeded both the aggregate lending performance and the census demographic. For middle-income census tracts, the bank's lending performance was less than the aggregate lenders and the percentage of owner-occupied units. The bank's lending in upper-income census tracts was less than the aggregate lending performance, but exceeded the census demographic.

In 2014, the bank's lending performance in low-income census tracts exceeded the aggregate lender performance, but was less than the percentage of owner-occupied units. For moderate- and middle-income geographies the bank's lending performance was less than both the aggregate lender performance and the percentage of owner-occupied units in these areas. The bank's performance in upper-income census tracts exceeded both performance measures.

**TABLE 10**  
**Distribution of 2012 HMDA Loans by Income Level of Geography**  
**Dallas, Johnson, and Tarrant Counties 2012 Assessment Area**

Census Tract Income Level	Bank Loans				Aggregate HMDA Data <sup>1</sup>		% of Owner Occupied Units <sup>2</sup>
	#	\$(000s)	# %	\$ %	# %	\$ %	
<b>Home Purchase Loans</b>							
Low	5	428	1.2	0.5	2.6	1.6	6.7
Moderate	80	8,938	20.0	10.2	14.6	8.8	25.8
Middle	129	25,088	32.2	28.7	35.1	27.3	34.2
Upper	187	53,071	46.6	60.6	47.7	62.3	33.3
Unknown <sup>3</sup>	0	0	0.0	0.0	0.0	0.0	0.0
Total	401	87,525	100.0	100.0	100.0	100.0	100.0
<b>Home Refinance Loans</b>							
Low	2	280	0.5	0.3	1.8	1.1	6.7
Moderate	29	7,733	7.6	7.0	10.4	6.1	25.8
Middle	120	33,547	31.6	30.4	30.2	21.9	34.2
Upper	229	68,882	60.3	62.4	57.6	70.8	33.3
Unknown <sup>3</sup>	0	0	0.0	0.0	0.0	0.0	0.0
Total	380	110,442	100.0	100.0	100.0	100.0	100.0
<b>Home Improvement Loans</b>							
Low	1	417	1.9	4.2	2.5	1.3	6.7
Moderate	2	134	3.8	1.4	14.1	6.9	25.8
Middle	13	2,367	25.0	24.0	33.9	23.3	34.2
Upper	36	6,938	69.2	70.4	49.5	68.6	33.3
Unknown <sup>3</sup>	0	0	0.0	0.0	0.0	0.0	0.0
Total	52	9,856	100.0	100.0	100.0	100.0	100.0
<b>Total Home Mortgage Loans</b>							
Low	9	3,820	1.1	1.8	2.2	2.4	6.7
Moderate	113	17,972	13.5	8.4	12.4	8.1	25.8
Middle	263	62,712	31.4	29.4	32.4	24.4	34.2
Upper	452	128,891	54.0	60.4	53.0	65.2	33.3
Unknown <sup>3</sup>	0	0	0.0	0.0	0.0	0.0	0.0
Total	837	213,395	100.0	100.0	100.0	100.0	100.0

<sup>1</sup> Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA LAR filers.

<sup>2</sup> The percentage of owner-occupied housing units by tract is based on 2010 ACS 5-year estimates and 2014 FFIEC census tract designations.

<sup>3</sup> Only includes loans with unreported geocode information. Does not include loans in tracts where the income category is 'unknown', which is 0.0% for the bank and 0.0% for aggregate.

(NOTE: Total percentages may vary due to automated rounding differences.)

<b>TABLE 11</b>							
<b>Distribution of 2013 HMDA Loans by Income Level of Geography</b>							
<b>Dallas, Johnson, and Tarrant Counties 2013 Assessment Area</b>							
<b>Census Tract Income Level</b>	<b>Bank Loans</b>				<b>Aggregate HMDA Data<sup>1</sup></b>		<b>% of Owner Occupied Units<sup>2</sup></b>
	<b>#</b>	<b>\$(000s)</b>	<b># %</b>	<b>\$ %</b>	<b># %</b>	<b>\$ %</b>	
<b>Home Purchase Loans</b>							
Low	7	780	2.2	1.0	2.5	1.7	6.7
Moderate	45	7,890	14.4	10.1	14.7	9.2	25.8
Middle	102	23,118	32.7	29.7	34.9	27.2	34.2
Upper	158	46,054	50.6	59.2	47.8	61.9	33.3
Unknown <sup>3</sup>	0	0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>312</b>	<b>77,842</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Home Refinance Loans</b>							
Low	6	341	3.0	0.6	2.1	1.7	6.7
Moderate	22	3,279	11.0	6.0	13.3	11.3	25.8
Middle	54	15,065	27.0	27.5	33.7	35.6	34.2
Upper	118	36,019	59.0	65.8	50.9	51.3	33.3
Unknown <sup>3</sup>	0	0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>200</b>	<b>54,704</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Home Improvement Loans</b>							
Low	1	15	2.4	0.5	3.7	1.2	6.7
Moderate	15	931	35.7	32.0	19.1	8.7	25.8
Middle	10	572	23.8	19.7	30.1	22.4	34.2
Upper	16	1,390	38.1	47.8	47.0	67.8	33.3
Unknown <sup>3</sup>	0	0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>42</b>	<b>2,908</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Total Home Mortgage Loans</b>							
Low	14	1,136	2.5	0.8	2.4	2.4	6.7
Moderate	82	12,100	14.8	8.9	14.2	11.3	25.8
Middle	166	38,755	30.0	28.6	34.2	32.3	34.2
Upper	292	83,463	52.7	61.6	49.1	54.0	33.3
Unknown <sup>3</sup>	0	0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>554</b>	<b>135,454</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<sup>1</sup> Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA LAR filers. <sup>2</sup> The percentage of owner-occupied housing units by tract is based on 2010 ACS 5-year estimates and 2014 FFIEC census tract designations. <sup>3</sup> Only includes loans with unreported geocode information. Does not include loans in tracts where the income category is 'unknown', which is 0.0% for the bank and 0.0% for aggregate. (NOTE: Total percentages may vary due to automated rounding differences.)							

**TABLE 12**  
**Distribution of 2014 HMDA Loans by Income Level of Geography**  
**Dallas, Johnson, and Tarrant Counties 2014 Assessment Area**

Census Tract Income Level	Bank Loans				Aggregate HMDA Data <sup>1</sup>		% of Owner Occupied Units <sup>2</sup>
	#	\$(000s)	# %	\$ %	# %	\$ %	
<b>Home Purchase Loans</b>							
Low	12	815	3.8	1.0	2.9	1.9	6.7
Moderate	71	7,475	22.8	8.8	15.3	9.6	25.7
Middle	114	35,290	36.5	41.8	35.7	28.1	34.0
Upper	115	40,936	36.9	48.4	46.1	60.4	33.7
Unknown <sup>3</sup>	0	0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>312</b>	<b>84,516</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Home Refinance Loans</b>							
Low	1	245	1.7	1.6	2.9	1.8	6.7
Moderate	6	1,030	10.2	6.5	16.6	9.7	25.7
Middle	20	4,545	33.9	28.8	35.0	26.2	34.0
Upper	32	9,952	54.2	63.1	45.5	62.3	33.7
Unknown <sup>3</sup>	0	0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>59</b>	<b>15,772</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Home Improvement Loans</b>							
Low	2	40	4.3	0.4	3.9	1.5	6.7
Moderate	3	441	6.4	4.5	18.2	9.2	25.7
Middle	13	1,596	27.7	16.3	29.9	21.4	34.0
Upper	29	7,742	61.7	78.8	48.0	67.9	33.7
Unknown <sup>3</sup>	0	0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>47</b>	<b>9,819</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Total Home Mortgage Loans</b>							
Low	16	3,005	3.7	2.3	3.0	3.2	6.7
Moderate	83	17,638	19.4	13.7	15.8	11.3	25.7
Middle	150	45,812	35.1	35.5	35.3	28.2	34.0
Upper	178	62,542	41.7	48.5	45.9	57.3	33.7
Unknown <sup>3</sup>	0	0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>427</b>	<b>128,997</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA LAR filers.

<sup>2</sup> The percentage of owner-occupied housing units by tract is based on 2010 ACS 5-year estimates and 2014 FFIEC census tract designations.

<sup>3</sup> Only includes loans with unreported geocode information. Does not include loans in tracts where the income category is 'unknown', which is 0.0% for the bank and 0.0% for aggregate.

(NOTE: Total percentages may vary due to automated rounding differences.)

### Small Business Loans

The geographic distribution of small business loans by income level of geographies within the assessment area reflects excellent penetration throughout the assessment area, including low- and moderate- income geographies. To evaluate the bank's performance, the bank's small business lending is compared to the number of small businesses located in the assessment area. CRA defines a small business as a business with annual gross revenue of \$1 million or less.

In 2012, 2013, and 2014, the bank originated a total of 1,192 small business loans in an aggregate amount of \$266 million. The three year average for the small business loans originated by the bank in low-income and moderate- income geographies was 12.4% and 25.1%, respectively, both exceeding the percentage of businesses in those census tracts. This performance demonstrates the bank's efforts toward meeting the credit needs of low- and moderate-income geographies.

The table below further details the bank's performance along with the assessment area's demographics.

<b>TABLE 13</b>							
<b>Distribution of 2012 Business Loans by Income Level of Geography Dallas, Johnson, and Tarrant Counties 2012 Assessment Area</b>							
Census Tract Income Level	Bank Loans				Aggregate CRA Data <sup>1</sup>		% of Businesses <sup>2</sup>
	#	\$(000s)	# %	\$ %	# %	\$ %	
Low	62	11,129	15.2	13.0	9.6	12.9	9.9
Moderate	98	21,388	24.0	25.0	21.3	23.7	24.0
Middle	137	26,866	33.5	31.4	27.8	24.8	30.7
Upper	112	26,242	27.4	30.6	38.1	37.1	35.2
Unknown <sup>3</sup>	0	0	0.0	0.0	0.2	0.3	0.2
Total	409	85,625	100.0	100.0	96.9	98.7	100.0

<sup>1</sup> Aggregate loan data reflects all small business loan originations in the bank's AA reported by all CRA filers. CRA data reports only business loans in amounts of \$1 million or less.

<sup>2</sup> The percentage of businesses by tract is based on 2012 Dun & Bradstreet Data and 2014 FFIEC census tract designations.

<sup>3</sup> Does not include loans in tracts where the income level is unknown, which is 0.0% by number and 0.0% by dollar. Only includes loans with no tract location reported.

(NOTE: Total percentages may vary due to automated rounding differences.)



<b>TABLE 14</b>							
<b>Distribution of 2013 Business Loans by Income Level of Geography</b>							
<b>Dallas, Johnson, and Tarrant Counties 2013 Assessment Area</b>							
<b>Census Tract Income Level</b>	<b>Bank Loans</b>				<b>Aggregate CRA Data<sup>1</sup></b>		<b>% of Businesses<sup>2</sup></b>
	<b>#</b>	<b>\$(000s)</b>	<b># %</b>	<b>\$ %</b>	<b># %</b>	<b>\$ %</b>	
Low	44	10,331	11.0	12.0	10.2	12.2	9.9
Moderate	93	21,023	23.3	24.3	21.6	24.1	23.9
Middle	138	27,991	34.6	32.4	27.6	24.9	30.7
Upper	124	27,089	31.1	31.3	38.6	37.6	35.3
Unknown <sup>3</sup>	0	0	0.0	0.0	0.3	0.4	0.2
Total	399	86,434	100.0	100.0	98.3	99.1	100.0

<sup>1</sup> Aggregate loan data reflects all small business loan originations in the bank's AA reported by all CRA filers. CRA data reports only business loans in amounts of \$1 million or less.

<sup>2</sup> The percentage of businesses by tract is based on 2013 Dun & Bradstreet Data and 2014 FFIEC census tract designations.

<sup>3</sup> Does not include loans in tracts where the income level is unknown, which is 0.0% by number and 0.0% by dollar. Only includes loans with no tract location reported.

(NOTE: Total percentages may vary due to automated rounding differences.)

<b>TABLE 15</b>							
<b>Distribution of 2014 Business Loans by Income Level of Geography</b>							
<b>Dallas, Johnson, and Tarrant Counties 2014 Assessment Area</b>							
<b>Census Tract Income Level</b>	<b>Bank Loans</b>				<b>Aggregate CRA Data<sup>1</sup></b>		<b>% of Businesses<sup>2</sup></b>
	<b>#</b>	<b>\$(000s)</b>	<b># %</b>	<b>\$ %</b>	<b># %</b>	<b>\$ %</b>	
Low	48	11,529	12.5	12.2	10.1	12.0	9.6
Moderate	91	24,432	23.7	25.9	21.7	23.1	23.4
Middle	111	28,490	28.9	30.2	28.1	26.1	30.1
Upper	132	28,563	34.4	30.3	38.3	37.6	36.6
Unknown <sup>3</sup>	2	1,250	0.5	1.3	0.2	0.4	0.2
Total	384	94,264	100.0	100.0	98.4	99.2	100.0

<sup>1</sup> Aggregate loan data reflects all small business loan originations in the bank's AA reported by all CRA filers. CRA data reports only business loans in amounts of \$1 million or less.

<sup>2</sup> The percentage of businesses by tract is based on 2014 Dun & Bradstreet Data and 2014 FFIEC census tract designations.

<sup>3</sup> Does not include loans in tracts where the income level is unknown, which is 0.0% by number and 0.0% by dollar. Only includes loans with no tract location reported.

(NOTE: Total percentages may vary due to automated rounding differences.)

## Community Development Lending

The bank makes a relatively high level of community development loans. The community development loans originated during the evaluation period were for a variety of purposes. Southwest operates in a very competitive market for community development loans, and their commitment to making qualified community development loans shows a good responsiveness to community needs. The table below summarizes the bank's community development lending.

<b>Community Development Lending</b>		
<b>Purpose</b>	<b>Number</b>	<b>\$(000s)</b>
Affordable Housing	11	25,059
Economic Development	9	25,534
Revitalize and Stabilize	5	20,654
Community Services	1	4,000
<b>Total</b>	<b>26</b>	<b>75,247</b>

Within the assessment area, four community development loans were originated for approximately \$4.9 million in 2012, five loans for \$11.4 million in 2013, nine loans for \$40.4 million in 2014, six loans for \$11.4 million in 2015, and two loans totaling \$7.1 million in 2016. The total number of loans for the review period was 26 totaling approximately \$75 million. On an annualized basis, the bank has increased community development lending since the previous examination, which included 16 loans totaling approximately \$34 million. None of the bank's community development loans are considered complex or innovative.

A majority of the loans were used to purchase real estate for small businesses and provide affordable single family housing. The bank also funded loans to companies engaged in providing community services, economic development, and revitalization and stabilization of low- and moderate- income areas. Some of the more significant loans are as follows:

- A \$4.1 million loan to purchase and renovate an apartment complex in a moderate-income census tract of Tarrant County, which provides affordable housing to low- and moderate-income residents.
- A \$4.0 million loan to a non-profit foundation that will convert a building to an athletic facility that benefits the athletic development of low- and moderate-income individuals.
- A \$2.3 million loan to purchase and make improvements to a retail shopping complex, where small businesses are tenants and employ low- and moderate-income employees.

## Investment Test

The bank's overall Investment Test rating is Low Satisfactory. The bank has an adequate level of qualified community development investments and grants, particularly those that are not routinely provided by private investors and is rarely in the lead investor position. The bank makes investments in organizations that primarily support affordable housing. The bank's qualifying investments remain centered in mortgage-backed securities and donations in which the primary purpose is affordable housing and community development services that benefit low- and moderate-income households.

Southwest's community development qualified investments totaled approximately \$700 thousand for 2012, \$600 thousand for 2013, and \$500 thousand for 2014. No qualified investments were made in 2015 and thus far in 2016. Qualified donations for the review period totaled approximately \$85 thousand in 2012, \$46 thousand in 2013, \$66 thousand in 2014, and \$86 thousand in 2015. Although the bank's investments and donations are not particularly innovative or complex, community contacts mentioned both affordable housing and financial literacy as needs in the assessment area, and the bank exhibits good responsiveness to meeting those needs.

## **Service Test**

The bank's overall Service Test rating is High Satisfactory.

### **Retail Services**

The bank's delivery systems are accessible to businesses and individuals of different income levels and geographies in the assessment area. Southwest operates a total of 15 full service branches and 13 ATMs, all of which are located within the bank's assessment area. The bank's 24-hour automated telephone banking feature allows customers to access their account information at their convenience. Additionally, the bank offers internet and mobile banking which allows customers to manage their accounts remotely. All banking products and services are available at all retail locations, which are reasonably accessible to individuals of different income levels and geographies in the assessment area.

Southwest opened six branches and relocated two branches in their assessment area during the evaluation period. The bank's record of opening and closing branches has not adversely affected the accessibility of its delivery systems, particularly to low- and moderate-income geographies and low- and moderate-income individuals. The branch openings included four in upper-income census tracts, one in a middle-income tract, and one in a moderate-income tract. The Grapevine Branch relocated from an upper-income tract to another upper-income tract, and the Hulen Branch moved from a moderate-income tract to a moderate-income tract. The Hulen Branch relocation was less than a quarter of a mile away from its original location, on the same street.

The full service branches in the assessment area provide convenient access to both credit and non-credit retail banking services. Lobby hours generally consist of 9:00 a.m. to 4:00 p.m., Monday through Thursday with extended hours of 9:00 a.m. to 6:00 p.m. on Friday. Southwest's drive-in facilities are generally open from 7:30 a.m. to 6:00 p.m. Monday through Friday. With the exception of the 7<sup>th</sup> Street and Dallas Luna branches, which are closed on Saturday, all drive-in facilities are open on Saturday 9:00 a.m. to 12:00 p.m. All lobby locations are closed on Saturday.

The bank has no branches located in low-income census tracts, where census data reports 13.0% of the assessment area's population are considered low-income. The bank has six branches, or 40.0%, of its branches in moderate-income census tracts, which exceeds the 31.0% of the

population considered moderate-income. Refer to the description of branch address, hours, and services on pages 2 and 3 for more information.

### Community Development Services

The bank provides a relatively high level of community development services. Bank management and staff serve as board members, directors, treasurers, and in other leadership roles, contributing their financial expertise to numerous organizations serving the economic, health, and social service needs of low- and moderate- income individuals and families and small businesses in the area. The following table illustrates the bank’s qualified activities during the review period in the assessment area:

<b>Table 16 Community Development Services</b>		
<b>Organization</b>	<b>Community Development Purpose</b>	<b>Function</b>
Gill Children’s Services	Provides affordable housing to low- and moderate-income individuals	Bank officer provided financial expertise by serving as Board Treasurer; responsibilities include reviewing financial reports, budgeting, and acting as a financial advisor for the organization.
Senior Citizen Services of Greater Tarrant County	Provides affordable housing to low- and moderate-income individuals	Bank officer provided financial expertise by serving on the Finance, Strategic Planning, and Facility and Technology Committees of the organization.
Tarrant County Housing Partnership, Inc.	Provides affordable housing to low- and moderate- income individuals	Bank officer provided financial expertise by serving as Board Chairperson; responsibilities include reviewing financial reports, property purchases, and acting as a financial advisor for the organization.
Cooks Children’s Hospital – Health Foundation	Community services targeted to low- and moderate- income individuals	Bank director provided leadership and technical assistance by serving on the finance committee advising management on building programs, real estate purchases, and financing. In addition, the director also serves on the campaign committee working with management to identify fundraising opportunities.
Habitat for Humanity Family Program	Affordable housing for low- and moderate- income individuals	Bank officer provided leadership by serving on the Neighborhood Land Corporation. Officer created the approval process for selecting families eligible to receive affordable housing and established a mechanism to apply for grants.
Fort Worth Hispanic Chamber of Commerce	Economic development	Bank officer provided technical assistance and financial literacy by teaching classes on financing a business and writing a business plan to small businesses.

### Fair Lending or Other Illegal Credit Practices Review

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified. The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations. Established policies and procedures are designed to ensure ongoing compliance with applicable laws and regulations.

## **APPENDICES**

Appendix A – General Information

**Acronyms:**

ATM	Automated Teller Machine
CDC	Community Development Corporation
CDFI	Community Development Financial Institution
CRA	Community Reinvestment Act (Regulation BB)
FDIC	Federal Deposit Insurance Corporation
HMDA	Home Mortgage Disclosure Act (Regulation C)
HUD	Department of Housing and Urban Development
LIHTC	Low Income Housing Tax Credit
LMI	Low- and Moderate-Income
LTD	Loan-to-Deposit Ratio
LTV	Loan-to-Value Ratio
MD	Metropolitan Statistical Area
OCC	Office of the Comptroller of the Currency
OMB	Office of Management and Budget
REIS	Regional Economic Information System
SBA	Small Business Administration
USDA	United States Department of Agriculture

**Rounding Convention:** Because the percentages in the tables were rounded to the nearest tenth in most cases, some columns may not total exactly to 100 percent.

### Appendix B - Glossary

**Aggregate lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Census tract:** A small, relatively permanent statistical subdivision of a county. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts average about 4,000 inhabitants, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to the population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community development:** All Agencies have adopted the following language:

1. Affordable housing (including multi-family rental 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 (13 CFR 121.301) or have gross annual revenues of \$1 million or less.
4. Activities that revitalize or stabilize –
  - a. Low- or moderate-income geographies.
  - b. Designated disaster areas.
  - c. Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
    - i. Rates of poverty, unemployment, and population loss.
    - ii. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.
5. Loans, investments, and services by financial institutions that-
  - a. Support, enable or facilitate projects or activities that meet the "eligible uses" criteria described in Section 2301(c) of the Housing and Economic Recovery Act of 2008 (HERA), Public Law 110-289, 122 Stat. 2654, as amended, and are conducted in designated target areas identified in plans approved by the United States Department of Housing and Urban Development in accordance with the Neighborhood Stabilization Program (NSP).
  - b. Are provided no later than two years after the last date funds appropriated for the NSP are required to be spent by grantees.
  - c. Benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or areas outside the bank's assessment area(s) provided

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the bank has adequately addressed the community development needs of its assessment area(s).

**Consumer loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and income of the applicants; the amount of loan requested; and the disposition of the application (for example, approved, denied, or withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancing of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Low-income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Metropolitan area (MA):** A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities



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having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

**Middle-income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

**Moderate-income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

**Small loan(s) to business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

**Small loan(s) to farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Call Report. These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

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**Upper-income:** Individual income that is 120 percent or more of the area median income, or a median family.

