



PUBLIC DISCLOSURE

October 14, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First FS & LA of Bath
Charter Number 703786

125 Front Street
Bath, ME 04530-2610

Office of the Comptroller of the Currency

99 Summer Street
Suite 1400
Boston, MA 02110

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

The major factors supporting the institution's rating are:

- The Bank's level of lending, as reflected by the loan-to-deposit ratio, is more than reasonable.
- A substantial majority of originated and purchased loans are made within the Bank's assessment area.
- The borrower distribution of loans reflects excellent distribution among individuals of different income levels.
- The geographic distribution of loans reflects reasonable distribution in the moderate-income census tract.

SCOPE OF EXAMINATION

First FS & LA of Bath (FFS Bath) was evaluated using Small Bank Community Reinvestment (CRA) evaluation procedures, which includes a lending test. Our review covered the Bank's lending performance from January 1, 2012 through December 31, 2013, as this was representative of the Bank's lending strategy since its last CRA evaluation.

FFS Bath is primarily a mortgage lender. The Bank's primary loan product, based on originations during the evaluation period, is residential mortgage loans. For purposes of this evaluation, residential loans are home purchase, home refinance, and home improvement loans reported pursuant to the Home Mortgage Disclosure Act (HMDA). As indicated by the June 30, 2014 Uniform Bank Performance Report (UBPR), 1-4 family residential real estate loans represent approximately 82% of the Bank's overall loan portfolio.

The Bank reports data under the requirements of the Home Mortgage Disclosure Act. We conducted a data integrity exam of the Bank's HMDA data for residential real estate loans originated/purchased, and found that the data was reliable. All residential real estate loans originated and purchased during the assessment period were included in our evaluation of the Bank's lending.

A full scope review was performed on AA 1 – Portland-South Portland-Biddeford, ME Metropolitan Statistical Area (MSA), which includes the entire Sagadahoc County and portions of Cumberland County. The majority of the Bank's deposits, lending activity, and physical presence is in this market. We performed a limited scope review on AA 2 – Lincoln County.

DESCRIPTION OF INSTITUTION

FFS Bath is \$118 million federally chartered intrastate mutual institution headquartered in Bath, Maine. The Bank does not have any operating subsidiaries or affiliate activities, which were considered in this evaluation. In addition to the Bank's main office located in Bath, ME, the institution operates four full service branches. These branches are located in Bath, ME; Damariscotta, ME; Boothbay Harbor, ME; and Wiscasset, ME. All of the Bank's branches, with the exception of the Boothbay Harbor branch, are located in a middle-income geography. The Boothbay Harbor branch is located in an upper-income geography. Branch hours are typically 09:00AM to 4:00PM Monday through Thursday with extended hours on Friday. Saturday hours are typically from 09:00AM to 12:00PM. No branches were closed during the evaluation period. There have not been any significant changes to the Bank's corporate structure since the last CRA evaluation.

FFS Bath offers a standard array of traditional loan and deposit products for both personal and business customers. The Bank's website, www.firstfederalbath.com, provides a listing and description of its deposit and loan services. The Bank offers a variety of different account access alternatives including telephone banking, a mobile banking application, and online banking with bill pay options. The Bank operates full-service automated teller machines (ATMs) at all of its branches and is a member of the Maine Cash Access Program, which allows member customers to access their accounts from participating network ATMs without any surcharge.

Residential real estate lending continues to remain the Bank's primary focus. FFS Bath primarily originates and purchases loans for its own portfolio and does not currently sell loans in the secondary market. Loan products include conventional mortgage loan products including fixed and adjustable rate mortgages.

As of June 30, 2014, total deposits were \$98 million, and net tier one capital was \$18 million. The loan portfolio totaled \$105 million, or 89% of total assets, as of the same date. The following table provides a summary of the loan mix.

Loan Portfolio Summary by Loan Product June 30, 2014	
Loan Category	% of Gross Loans and Leases
1-4 Family Residential Mortgage – Closed End	82%
Commercial Real Estate	8%
Home Equity	6%
Commercial & Industrial	2%
Construction and Development	1%
Consumer Loans	1%

Source: FDIC Call Report

The Bank has no financial or legal impediments to meeting the credit needs of the community. The Bank was rated "Outstanding," using small bank procedures, at the last CRA evaluation dated August 18, 2008.

DESCRIPTION OF ASSESSMENT AREA(S)

The CRA requires a Bank to define an AA in which it will be evaluated. FFS Bath has two AAs that meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income tracts.

Full Scope AA 1 – Portland-South Portland-Biddeford, ME, MSA

AA 1 is comprised of all of Sagadahoc County and portions of Cumberland County. AA 1 consists of ten towns and one city in Sagadahoc County and two towns in Cumberland County, Maine. AA 1 is comprised of 14 census tracts and is part of the Portland-South Portland-Biddeford, ME MSA. There are no low-income tracts within AA 1. The assessment area includes one moderate-income tract (7%), 12 middle-income tracts (86%), and one upper-income tract (7%). The 2010 U.S. Census Data indicates that 37% of families within AA 1 are considered low- or moderate-income and approximately 10% of the households are below the poverty line.

Demographic information for AA 1 based on 2010 U.S. Census is broken down below:

Demographic Information for FFS Bath AA 1					
Income Level	Total #	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	14	0%	7%	86%	7%
Population by Geography	60,311	0%	7%	82%	11%
Owner Occupied Housing by Geography	18,520	0%	7%	81%	12%
Family Distribution by Income Level	16,109	18%	19%	26%	37%
2010 Census Median Family Income (MFI)		\$67,971	Median Housing Value		221,621
HUD Updated MFI: 2013		\$72,200	Families Below the Poverty Level		10%
			Unemployment Rate *		4.2%

Source: 2010 U.S. Census data

*Data from US Bureau of Labor Statistics as of 12/31/2012. Rate is average for Sagadahoc and Cumberland Counties

FFS Bath operates in a highly competitive market with competition from local commercial banks and savings banks. The Federal Deposit Insurance Corporation's Institutions Deposit Market Share Report, as of June 30, 2014, indicates 21 institutions operate branches within the Bank's AA 1. FFS Bath ranks 18th with a deposit market share of approximately 0.21%. Area competitors include: Kennebunk Savings Bank, Gorham Savings Bank, Norway Savings Bank, Bath Savings Institution, The Bank of Maine, and Bangor Savings Bank. Large nationwide banks that provide further competition and are deposit share leaders include TD Bank, National Association; KeyBank National Association; Bank of America, National Association; and People's United Bank.

Several local and nationwide entities provide additional competition for mortgage and business loans within the Bank's AA 1 including: Wells Fargo Bank, NA; Camden National Bank; JP Morgan Chase Bank, NA; and Bank of America, N.A. The 2013 Peer Mortgage Market Share data indicates that FFS Bath competes with 148 lenders within AA 1. The top ten lenders dominate the market with an overall market share of approximately 56%.

Per Moody's Analytics, the economy in the Portland-South Portland-Biddeford, ME MSA continues to recover slowly. Payroll growth and the unemployment rate are nearing their prerecession levels, and the labor force is trending up. The hiring has been limited to healthcare providers, tourism-related industries, and administrative/support professional services. The Moody's report indicates that recovery in the area will remain slow in the near term. Tourism related industries, mainly restaurants and travel accommodations, will continue to expand. Weak population growth represents a downside risk and these unfavorable demographics are expected to cause the MSA to trail the nation in job and income gains. Data from the U.S. Bureau of Labor Statistics indicates that the unemployment rate for the two counties in AA 1 averaged 4.2% as June 30, 2014. Rates were 4.1% and 4.2% for Cumberland and Sagadahoc counties, respectively. Major employers within AA 1 include Maine Medical Center, Bath Iron Works, LL Bean Inc., Hannaford Bros. Co., Unum Provident, and Mercy Hospital.

The median housing prices in AA 1 remain relatively high compared to median family income. The relatively expensive housing market limits the availability of affordable housing for low- and moderate-income families in the AA. Based on the 2010 U.S. Census Data, the average median cost of housing for the towns that are part of AA 1 is \$222 thousand. This is well above the median housing cost in the state of Maine of \$199 thousand.

In assessing the Bank's performance, we reviewed a recent community contact with an organization whose mission is to provide advocacy, supportive housing, community inclusion, and stability for homeless and special needs populations across the state of Maine. The organization also provides workforce housing for people who cannot afford to live near their work. They have developed 75 housing sites in 31 communities spanning 12 counties, creating over 688 units of low-income and special needs housing. The contact noted that because of sequestration, the state of Maine stands to lose approximately seven percent of its Section 8 housing vouchers. There is an increasing demand for affordable rental housing, including housing for LMI households as well as workforce housing. For example, people working in blue-collar jobs, teachers, and retail workers cannot afford to live where they work and it is not unusual for these households to pay upwards of 50% or more of their income for housing costs.

In addition to affordable housing, there is a need for funding to support programs that provided training that leads to self-sufficiency for low-income households and special needs populations. This includes programs that provide workforce training and basic life skills. The contact mentioned that the local financial institutions are supportive of the credit needs of the community.

Limited Scope AA 2 – Lincoln County

AA 2 consists of all cities/towns located in Lincoln County and is not part of an MSA or Metropolitan Division (MD). AA 2 is comprised of 18 cities/towns (9 census tracts) located in Lincoln County, Maine. Based on the 2010 U.S. Census Data there are no low- or moderate-income tracts within AA 2. AA 2 is comprised of six middle-income tracts (67%) and three upper-income tracts (33%). The 2010 U.S. Census Data also indicates that 32% of families within AA 2 are considered low- or moderate-income and approximately 11% of the households are below the poverty line.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FFS Bath's performance under the lending test is outstanding. FFS Bath's loan-to-deposit ratio is more than reasonable. A substantial majority of loans were originated inside the Bank's AA. Overall, the distribution of loans reflects an excellent distribution among individuals of different income levels. Overall, the geographic distribution of loans reflects a reasonable distribution in the moderate-income census tract.

Loan-to-Deposit Ratio

The Bank's loan-to-deposit ratio is more than reasonable given the Bank's size and AA credit needs. The Bank's net loan-to-deposit ratio averaged 108% over the last 24 quarters, since the previous CRA evaluation. During this period, the loan-to-deposit ratio ranged from a quarterly low of 100% to a high of 113%. The Bank's loan-to-deposit ratio is higher than the national peer bank median quarterly average of 86% over the same period.

Lending in Assessment Area

A substantial majority of FFS Bath's primary loan products were made within the Bank's assessment area and the Bank meets the standard for outstanding performance. FFS Bath originated 89% by number and 90% by dollar amount of loans in the AA. The following table details the Bank's lending within the AA by number and dollar amount of loans.

Lending in FFS Bath's AA (000's)										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	79	83%	16	17%	95	10,329	80%	2,537	20%	12,866
Home Refinance	89	95%	5	5%	94	12,286	97%	446	3%	12,732
Home Improvement	44	88%	6	12%	50	4,894	94%	303	6%	5,197
Totals	212	89%	27	11%	239	27,509	90%	3,286	10%	30,795

Source: HMDA – reported data from 1/1/2012-12/31/2013

Lending to Borrowers of Different Incomes

The distribution of home loans within the Bank's AA reflects excellent distribution among individuals of different income levels.

Conclusions for full-scope AA 1 – Portland-South Portland-Biddeford, ME, MSA

The distribution of home loans originated and/or purchased within AA 1 reflects excellent penetration among borrowers of different income levels. Home refinance loans represent a significant portion of the overall originations made by the Bank during the evaluation period. The percent of home refinance loans made to low-income borrowers significantly exceeds the percent of peer aggregate lending data, which is the Bank's primary comparator as well as the percent of low-income families within AA 1. The percent of home purchase loans made to low-income borrowers also significantly exceeds the percent of peer aggregate lending data and the percent of low-income families within AA 1. The percent of home improvement loans is lower than the peer aggregate lending data; however, it significantly exceeds the percent of low-income families within AA 1.

The percent of home refinance and home improvement loans made to moderate-income borrowers significantly exceeds the percent of peer aggregate lending data as well as the percent of moderate-income families within AA 1. The percent of home purchase loans is lower than the percent of peer aggregate lending; however, it exceeds the percent of moderate-income families in AA 1.

FFS Bath's performance is considered outstanding given the continued need for affordable housing and significant market competition within AA 1. Lack of affordable housing limits lending opportunities for low- and moderate-income borrowers. The median housing value in AA 1 remains relatively high compared to the median family income in AA 1. Based on the 2010 U.S. Census Data, the average median home price in AA 1 is \$222 thousand. The 2013 HUD updated median family income is \$72,200, which means that a low-income borrower would earn less than \$36,100, making it difficult to qualify for a home loan. Additionally, a moderate-income borrower would also

encounter difficulty qualifying for a home loan with an income range of at least \$36,100 but less than \$57,760.

Market competition for home loans is significant within AA 1. According to the 2013 Peer Mortgage Market Share data, mortgage lending in AA 1 is dominated by larger local institutions and nationwide banks with the top five institutions holding approximately 40% of the overall lending market share. Furthermore, the 2012 Peer Mortgage Market Share data for home purchase lending indicates significant competition for home purchase loans. The report indicated that the top five institutions serving AA 1 make up for approximately 49% of the overall market share.

The following table shows the distribution of home loan products among borrowers of different income levels compared to the percent of families in each income category.

*Table 2 - Borrower Distribution of Residential Real Estate Loans in AA 1								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	18	23	19	22	26	19	37	36
Home Improvement	18	20	19	27	26	20	37	33
Home Refinance	18	25	19	29	26	27	37	19

**Source: HMDA reported data from 1/1/2012 to 12/31/2013*

*Table 2A – Aggregate Lending Data for Borrower Distribution in CFSB AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% Aggregate Data	% of Number of Loans	% Aggregate Data	% of Number of Loans	% Aggregate Data	% of Number of Loans	% Aggregate Data	% of Number of Loans
Home Purchase	11	23	27	22	27	19	35	36
Home Improvement	24	20	18	27	24	20	34	33
Home Refinance	10	25	19	29	26	27	45	19

**Source: HMDA reported data from 1/1/2012 to 12/31/2013*

Conclusion for limited-scope AA 2 – Lincoln County

Based on a limited-scope review, FFS Bath's borrower distribution of home loans in AA 2 is not inconsistent with the Bank's overall performance in the full scope area.

Geographic Distribution of Loans

The geographic distribution of home loans reflects reasonable distribution in the moderate-income tract within the Bank's AA 1. FFS Bath's AA 1 includes 1 moderate-income tract and no low-income tracts. We found no conspicuous gaps or areas of low penetration in the Bank's lending patterns.

The percent of home purchase loans exceeds the percent of peer aggregate lending data as well as the percent of owner-occupied housing in the moderate-income tract. The percent of home refinance loans is near to the percent of peer aggregate lending data in moderate-income geography and is lower than the percent of owner-occupied units within the moderate-income tract. The Bank did not make any home improvement loans within the moderate-income geography.

FFS Bath's performance is considered satisfactory given the lack of affordable housing units as identified by our community contact, significant market competition, and limited lending opportunity within the one moderate-income tract. According to the 2013 Peer Mortgage Market Share data for loans made in the moderate-income tract, the top five institutions make up 45% of the overall market share within the moderate-income tract of AA 1.

The following table details the Bank's performance compared to the percentage of owner-occupied housing units in each census tract income level as well as the aggregate lending data for all HMDA reporters within the Bank's AA.

*Table 3 - Geographic Distribution of Residential Real Estate Loans in AA 1								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0	0	7	9	81	85	12	6
Home Improvement	0	0	7	0	81	100	12	0
Home Mortgage Refinance	0	0	7	3	81	95	12	2

**Source: HMDA reported data from 1/1/2012 to 12/31/2013*

*Table 3A – Aggregate Lending Data for Geographic Distribution in AA 1								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% Aggregate Lending Data	% of Number of Loans	% Aggregate Lending Data	% of Number of Loans	% Aggregate Lending Data	% of Number of Loans	% Aggregate Lending Data	% of Number of Loans
Home Purchase	0	0	6	9	76	85	18	6
Home Improvement	0	0	5	0	86	100	9	0
Home Mortgage Refinance	0	0	5	3	83	95	12	2

**Source: HMDA reported data from 1/1/2012 to 12/31/2013*

Conclusion for limited-scope AA 2 – Lincoln County

Geographic distribution of home loans was not applicable within AA 2 as there are no low- or moderate-income tracts within the AA.

Responses to Complaints

The Bank did not receive any CRA related complaints during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to C.F.R. 195.28(c), in determining a Federal savings association's (FSA) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the FSA, or in any assessment area by an affiliate whose loans have been considered as part of the FSA's lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.