



PUBLIC DISCLOSURE

June 17, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Carrollton Federal Bank
Charter Number 704069

2539 Highway 227
Carrollton, Kentucky 41008

Office of the Comptroller of the Currency

10200 Forest Green Blvd
Suite 501
Louisville, Kentucky 40223

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.

This Performance Evaluation communicates the results of an assessment of the Community Reinvestment Act (CRA) performance of Carrollton Federal Bank, Carrollton, Kentucky. The evaluation was prepared by the Office of the Comptroller of the Currency (OCC), the institution's primary regulator. The OCC rates the CRA performance of an institution consistent with the provisions set forth in appendix A to 12 CFR 195.

INSTITUTION'S CRA RATING: SATISFACTORY.

Carrollton Federal Bank (CFB) has a satisfactory record of meeting the credit needs of its community. This conclusion is based on an amalgamation of the following.

- CFB's loan-to-deposit ratio exceeds standards for satisfactory performance.
- CFB's record of lending in the assessment area (AA) does not meet standards for satisfactory performance. CFB originated a majority of loans outside its AA.
- CFB's distribution of loans to low- and moderate-income individuals meets standards for satisfactory performance.

SCOPE OF THE EXAMINATION

We evaluated CFB's CRA performance between January 20, 2009 and June 17, 2013 using the Small Bank Examination Procedures. We focused on originations of CFB's primary loan product, residential mortgage loans, between January 2010 and March 31, 2013. We also considered the Bank's loan-to-deposit (LTD) ratio, the level of lending in the Bank's AA, and the distribution of loans based on the income level of the borrower. Our analysis of the borrower distribution of loans compared those originated during the testing period to aggregate percentages for all depository lenders that made loans in the AA during the same period. We also considered information from members of the local community to assess the credit needs in the AA.

DESCRIPTION OF THE INSTITUTION

Carrollton Federal is a federally-chartered mutual savings association located in Carrollton, Kentucky. CFB has one office, located in a middle-income census tract (CT) within Carroll County. As of March 31, 2013, CFB reported \$37 million in total assets, \$30 million in total deposits, \$24 million in total loans, and \$4 million in tier 1 capital.

CFB is a traditional savings association with lending primarily focused in residential mortgage loans for the purchase, refinance, improvement, and construction of one-to-four family dwellings. As of March 31, 2013, net loans represented 65 percent of the institution's average assets. The loan portfolio mix is as follows: one-to-four family residential real estate loans (72 percent), farmland (7 percent), multifamily properties (1 percent), commercial real estate (11 percent), construction and development (3 percent), and consumer loans (6 percent).

CFB offers an automated teller machine (ATM) and drive-up service at its location, which is accessible to all segments of the community. The ATM does not accept deposits. No branches were opened or closed during the evaluation period.

CFB was rated “Satisfactory” at the last CRA evaluation, dated January 20, 2009.¹ There are no legal or financial circumstances affecting CFB’s ability to meet community credit needs.

DESCRIPTION OF THE ASSESSMENT AREA

Carroll County, Kentucky is CFB’s AA for CRA purposes. The AA is located in North-Central Kentucky. The AA is in conformance with regulatory requirements, appears appropriate in relation to the location of CFB’s office, and does not arbitrarily exclude any low- and moderate-income areas.

The following table summarizes demographic information for the AA based on the 2000 and 2010 United States Census (Census). Both denote the AA has having three census tracts (CT) with none identified as low- or moderate-income. The most significant change resulting from the 2010 Census was the reclassification of two CTs from upper-income to middle-income tracts.

The local economy deteriorated during the evaluation period. The median family income, per the 2010 Census, declined 2.6 percent from the 2000 Census. The percentage of households below the poverty level rose 3.92 percent. The percentage of low- and moderate-income families grew by 48 percent. The unemployment rate in the AA was higher than that of surrounding counties, state, and national rates during this period. After peaking at 11.9 percent in January 2012, it was 9.6 percent at March 2013. These statistics, along with the 50 percent rise in the median housing value, make it more difficult for individuals to afford or maintain a home.

¹ The previous CRA examination was completed by the Office of Thrift Supervision (OTS). Pursuant to the Dodd–Frank Wall Street Reform and Consumer Protection Act, the OTS was merged into the OCC on July 21, 2011.

Demographic Information for Full-Scope Area: Carroll County										
	2010 Census Data					2000 Census Data				
	#	Low % of #	Mod % of #	Mid % of #	Upper % of #	#	Low % of #	Mod % of #	Mid % of #	Upper % of #
Census Tracts	3	0.00	0.00	100.00	0.00	3	0.00	0.00	33.33	66.67
Population by Geography	10,811	0.00	0.00	100.00	0.00	10,155	0.00	0.00	24.52	75.48
Owner-Occupied Housing by Geography	2,758	0.00	0.00	100.00	0.00	2,631	0.00	0.00	26.04	73.96
Businesses by Geography	932	0.00	0.00	100.00	0.00	1,033	0.00	0.00	23.04	76.96
Farms by Geography	47	0.00	0.00	100.00	0.00	46	0.00	0.00	67.39	32.61
Families by Income Level	2,984	25.74	13.37	14.58	46.31	2,781	17.01	11.25	17.30	54.44
Distribution of Low- and Moderate-Income Families throughout AA	1,167	0.00	0.00	100.00	0.00	786	0.00	0.00	27.35	72.65
Median Family Income	\$42,389					\$43,502				
HUD Adjusted Median Family Income	\$43,600					\$43,000				
Households Below Poverty Level	19.40%					15.48%				
Median Housing Value	\$115,859					\$77,044				

Sources: 2000 and 2010 U.S. Censuses

A majority of the Carroll County workforce resides outside the county. The local economy is supported by service, trade, transportation, utilities, and manufacturing industries. The largest employers include:

- Gallatin Steel Co. (manufacturer of hot and flat rolled steel),
- Dana Light Axle Manufacturing (light truck axle assemblage), and
- Dow Corning Corporation (production of silicon-based products and intermediates).

Loan demand is soft and competition for quality residential mortgage loans is strong. CFB competes with five other financial institutions, including a branch of a large national bank. Based on June 30, 2011 Federal Deposit Insurance Corporation deposit market share data, all of CFB's \$29 million in deposits were derived within the AA. This equates to a 17 percent market share, ranking CFB second among the six financial institutions in the market.

A review of a community contact familiar with the AA identified one-to-four family residential housing and small business loans as credit needs of the community. The contact stated local banks are active in meeting these needs.

CONCLUSIONS WITH RESPECT TO THE PERFORMANCE CRITERIA

CFB's CRA performance is satisfactory. CFB's net loan-to-deposit ratio (LTD) exceeds standards for satisfactory performance. CFB originated a majority of loans outside the AA. CFB's borrower distribution among borrowers of different incomes meets standards for satisfactory performance. There were no complaints regarding CFB's performance in meeting the credit needs of the community.

Loan-to-Deposit Ratio

CFB's LTD ratio exceeds standards for satisfactory performance given the Bank's size, financial condition, and the AA's credit needs. CFB's average LTD ratio over the 17 quarters since the last CRA public evaluation was 90 percent. This ratio ranged from a quarterly low of 79 percent to a quarterly high of 96 percent. We evaluated CFB's average LTD ratio using local competitors with total assets ranging from \$97 million to \$221 million. During the same period, their average LTD ratio ranged from 65 percent to 77 percent.

Lending in the Assessment Area

CFB's record of lending in the AA does not meet standards for satisfactory performance. CFB originated a majority of loans outside the AA. The following table details the Bank's lending within the AA by number and dollar amount of loans originated during the evaluation period.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate Loans	7	35.00	13	65.00	20	494,134	30.66	1,117,314	69.34	\$1,611,447

Source: Random sample of twenty residential loans originated between January 1, 2011, and March 31, 2013.

CFB originated 35 percent of its primary loan product in its AA and 65 percent outside. There are several reasons for this performance. CFB has only one location, which is located in Carroll County. However, CFB originates a significant number of loans in the contiguous county of Trimble. Sixty percent of the loans in our sample were originated in these two counties. Trimble County is located in a metropolitan statistical area (MSA) and is prohibited from being combined with the non-MSA county of Carroll by regulation. As CFB does not have a branch or deposit-taking ATM in Trimble County, it cannot be designated as a separate AA. If not for the technical requirements of the regulation, CFB would consider both counties as one AA.

Strong local competition also impacts CFB’s ability to lend in the AA. A branch of a large bank is aggressively pursuing CFB’s customers with long-term fixed rate mortgage products. Another community bank has strong ties in the AA. This has necessitated the Bank to look to surrounding counties for loan growth.

Lending to Borrowers of Different Incomes

CFB’s distribution of loans among borrowers of different income levels meets standards for satisfactory performance.

The following tables show CFB’s distribution of loans made within the AA based on borrower income. The tables compare this data to the aggregate percentages for all depository lenders that made loans in the AA during 2011. (Note: 2012 Peer Mortgage Data was not yet available for comparison purposes.)

Table 1 - Borrower Distribution of Residential Real Estate Loans in Carroll County 2012-2013			
Borrower Income Category	#	%	% Peer Mortgage Data
Low	1	6.67	3.70
Moderate	1	6.67	11.64
Middle	1	6.67	19.05
Upper	12	79.99	47.62
NA*	0	0.00	17.99
Total	15	100.00	100.00

(*) The NA category consists of originations where income information was not available.
 Sources: Random sample of residential loans originated from January 1, 2012 through March 31, 2013; 2011 Peer Mortgage

CFB’s loan distribution to low-income borrowers represented 6.67 percent of total loan originations, which exceeds the peer comparator of 3.70 percent. Originations to moderate-income borrowers, 6.67 percent, were below peer of 11.64 percent.

Table – 2 Borrower Distribution of Residential Real Estate Loans in Carroll County 2010-2011			
Borrower Income Category	#	%	% Peer Mortgage Data
Low	0	0.00	3.70
Moderate	4	25.00	11.64
Middle	2	12.50	19.05
Upper	10	62.50	47.62
NA*	0	0.00	17.99
Total	16	100.00	100.00

(*) The NA category consists of originations where income information was not available.
 Sources: Random sample of residential loans originated from January 1, 2010 through December 31, 2011; 2011 Peer Mortgage

CFB made no loans to low-income borrowers during this period compared to peer originations of 3.70 percent. Originations to moderate-income borrowers, 25.00 percent, were well above peer of 11.64 percent.

CFB's performance in the 2012-2013 represents a decline in lending to moderate-income individuals from that of 2010-2011. During the evaluation period, CFB lowered minimum credit score requirements to 620 to reflect the declining income demographics of the AA. However, management stated this effort did not substantially increase the number of qualifying borrowers. The strong local competition has necessitated the Bank to make more loans outside the AA where unemployment and poverty rates are historically lower. The declining trend in CFB's lending to moderate-income borrowers reflects this change in strategy.

Geographic Distribution of Loans

The focus of this analysis is to determine the Bank's geographic distribution of lending among low-, moderate-, middle-, and upper-income geographies. Because there were no low- or moderate-income census tracts in Carroll County in either the 2000 or 2010 Census, an analysis of CFB's loan distribution by geography is not meaningful.

Responses to Complaints

CFB did not receive any CRA related complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 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.