



## **PUBLIC DISCLOSURE**

December 31, 2013

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First Federal Savings and Loan Association  
Charter Number 706517

479 Main St  
Hazard, Kentucky 41701-1776

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 First Federal Savings & Loan Association in Hazard, Kentucky (First Federal or Bank). The evaluation was prepared by the Office of the Comptroller of the Currency (OCC), the institution's primary regulator, as of December 31, 2013. 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**

First Federal has a satisfactory record of meeting the credit needs of its community. We base this conclusion on the following.

- The average loan-to-deposit (LTD) ratio is reasonable given First Federal's size, financial condition, and the credit needs of its assessment area (AA).
- First Federal's record of lending in the AA exceeds standards for satisfactory performance.
- First Federal's proportion of loans to low- and moderate-income individuals is reasonable.
- First Federal's geographic distribution of loans reflects reasonable distribution throughout the AA.

### **SCOPE OF THE EXAMINATION**

This Performance Evaluation assesses First Federal's record of meeting the credit needs of the community in which it operates. We evaluated First Federal using the Small Bank Examination Procedures. These procedures include a lending test to evaluate the Bank's record of meeting the credit needs of its AA through its lending activities.

The CRA evaluation covers the period between August 28, 2009 and December 31, 2013. The lending test focused on originations of First Federal's primary loan product, residential mortgage loans, between January 1, 2012 and December 31, 2013. We determined the primary loan product by reviewing available lending reports for the representative timeframe and through discussions with management. To analyze the primary loan product, we selected a random sample from the loan portfolio.

The institution's overall rating is the aggregate of conclusions reached in the lending test.

### **DESCRIPTION OF THE INSTITUTION**

First Federal is a federally-chartered, stock savings association located in Hazard, Kentucky. Hazard is located in Perry County, Kentucky. As of December 31, 2013, First Federal had one office, \$83 million in total assets, \$63 million in deposits, \$65 million in total loans, and \$16 million in tier 1 capital. First Federal does not operate an Automated Teller Machine (ATM) or issue ATM cards that permit customers to access their accounts through ATM networks of other institutions.

First Federal offers traditional banking services and lending products. First Federal continues to be community oriented and primarily offers one-to-four family residential real estate loans. As of

December 31, 2013, net loans represented 77 percent of average assets. The loan portfolio mix was as follows: one-to-four family residential real estate loans (80 percent), business purpose loans (17 percent), and consumer loans (3 percent). The Bank offers limited loan products for commercial and commercial real estate. First Federal also purchases loans originated by its sister bank, First Federal Savings Bank of Frankfort, Frankfort, Kentucky.

There are no legal or financial circumstances that affect First Federal's ability to meet the credit needs of its community. The Office of Thrift Supervisions (OTS) completed First Federal's last CRA evaluation on August 27, 2009.<sup>1</sup> The Bank received a satisfactory rating.

## **DESCRIPTION OF THE ASSESSMENT AREA**

First Federal's AA consists of Breathitt, Clay, Knott, Laurel, Leslie, Letcher, and Perry counties in Kentucky. The area is located in Eastern Kentucky. None of the counties are part of a Metropolitan Statistical Area (MSA). According to the 2010 United States Census (Census), the area is comprised of 49 census tracts (CT). Income designations include four low-income CTs, 13 moderate-income CTs, 29 middle-income CTs, and three upper-income CTs.

According to the 2010 Census, the population of the AA totaled 175 thousand. As of December 31, 2013, the unemployment rates for all seven counties in the AA were above the Kentucky unemployment rate of 8.3 percent. Unemployment rates were as follows. Breathitt County (11.4 percent), Clay County (11.8 percent), Knott County (13.7 percent), Laurel County (8.4 percent), Leslie County (15.7 percent), Letcher County (14.6 percent), and Perry County (12.2 percent).

Coal mining previously supported the local economy. The struggling the mining industry added to the increasing unemployment rates in the AA. Currently, the largest employer in the AA is the Hazard Appalachian Regional Healthcare Medical Center. The economy is primarily supported by healthcare, educational services, and finance. Perry County, Kentucky, is also home to the Hazard Community and Technical College.

Loan demand is soft and competition for quality residential mortgages is strong. First Federal competes with 17 other financial institutions. The financial institutions in the AA range from small community banks to branches of large national banks. The total deposits, inside the AA, of these branches or Banks range from \$790 thousand to \$306 million. First Federal is the fifth smallest bank in the AA in relation to local deposits, with just a 3 percent deposit market share.

We performed one community contact interview during our evaluation. The contact identified residential housing as a credit need in the community. The contact indicated First Federal is active in meeting these needs.

The following demographic information covering First Federal's AA is based on data from the 2010 Census, unless otherwise stated.

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<sup>1</sup> Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, the OTS was merged into the OCC on July 21, 2011.

<b>Demographic Information for First Federal's AA</b>					
	#	Low % of #	Mod % of #	Mid % of #	Upper % of #
Census Tracts	49	8.2	26.5	59.2	6.1
Population by Geography	175,344	4.6	22.6	68.6	4.2
Owner-Occupied Housing by Geography	77,898	4.4	20.9	70.4	4.6
Businesses by Geography	11,852	1.6	19.4	74.5	4.6
Farms by Geography	267	1.1	21.4	73.8	3.8
Families by Income Level	45,165	4.4	20.3	71.3	4.0
Distribution of Low- and Moderate-Income Families throughout AA	45,165	67.5	56.0	44.2	38.6
Median Family Income	\$39,460	Median Housing Value			\$68,232
HUD Adjusted Median Family Income (2013)	\$44,700	Average Unemployment Rate			12.5%
Households Below the Poverty Level	26.91%				

*Source: 2010 U.S. Census and 2013 U.S. Department of Housing and Urban Development (HUD) updated median family income (MFI). These figures were obtained directly from U.S. Census data and may or may not total exactly 100 percent.*

## **CONCLUSIONS WITH RESPECT TO THE PERFORMANCE CRITERIA**

### **Lending Test**

First Federal's performance under the lending test is satisfactory. The LTD ratio meets the standards for satisfactory performance. First Federal's borrower distribution among borrowers of different incomes meets standards for satisfactory performance. First Federal's geographic distribution reflects reasonable distribution. There were no complaints during the review period regarding First Federal's performance in meeting the credit needs of its community.

### **Loan-to-Deposit Ratio**

First Federal's LTD ratio is reasonable and meets the standards for satisfactory performance given its size, financial condition, and the AA's credit needs. First Federal's average LTD ratio over the 18 quarters since the last CRA public evaluation was 105.7 percent. During the assessment period, the LTD ratio ranged from a quarterly low of 102.0 percent to a quarterly high of 110.3 percent.

We compared First Federal to four similarly situated local banks. The table below shows the average LTD ratios of the other banks for the same period ranged from 45 to 65 percent. First Federal's LTD ratio is well-above all four peer averages. However, this finding is tempered by the fact that a significant portion of the Bank's loans are out-of-area loans purchased from an affiliate.

Institution	Average LTD
First Federal Savings & Loan Association	105.7
Bank 1	69.3
Bank 2	65.4
Bank 3	51.2
Bank 4	45.5

**Lending in Assessment Area**

First Federal’s record of lending its primary loan product in its AA exceeds standards for satisfactory performance. First Federal originated a substantial majority of its one-to-four family loans inside the AA. Table 1 shows 85 percent of residential loans in our sample were made to borrowers inside the AA. To reach this conclusion, the OCC analyzed a random sample of 20 one-to-four family residential real estate loans originated between January 1, 2012 and December 31, 2013.

Loan Type	Number of Loans				Total	Dollars of Loans (000’s)				
	Inside		Outside			Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate Loans	17	85	3	15	20	1,609	83	327	17	1,936

*Source: A random sample of 20 one-to-four family residential real estate loans originated by First Federal between January 1, 2012 and December 31, 2013.*

**Lending to Borrowers of Different Incomes**

First Federal’s distribution of loans among borrowers of different income levels meets standards for satisfactory performance. To reach this conclusion, the OCC analyzed 20 1-4 family residential real estate loans inside the Bank’s AA with origination dates between January 1, 2012 and December 31, 2013. The sample results are compared to peer mortgage data consisting of all Home Mortgage Disclosure Act (HMDA) reportable loans extended within First Federal’s AA.

Income Distribution of Residential Real Estate Loans

The distribution of loans, given the peer mortgage data, meets standards for satisfactory performance among individuals of different income levels, including low- and moderate-income families. First Federal’s competition for mortgage lending consists of 17 other banking institutions in their AA. While First Federal operates one office in the AA, these competing institutions operate 65 offices within the AA in aggregate. The strong competition and increasing unemployment rates during the assessment period makes finding quality borrowers difficult.

First Federal originated one of the 20 residential loans in our sample, or five percent, to low-income families and two loans, or 10 percent, to moderate-income families. These results are comparable to peer lending data detailed in Table 2 below.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in First Federal's AA 2012-2013</b>			
<b>Borrower Income Category</b>	<b>#</b>	<b>%</b>	<b>% Peer Mortgage Data</b>
Low	1	5.0	7.4
Moderate	2	10.0	14.34
Middle	5	25.0	20.34
Upper	12	60.00	52.58
NA*	0	0.00	5.34
Total	20	100.00	100.00

*(\*) The NA category consists of originations where income information was not available.*

*Sources: A random sample of 20 residential real estate loans in the AA originated between January 1, 2012 and December 31, 2013 and 2012 Peer Mortgage Data*

### **Geographic Distribution of Loans**

The overall geographic distribution of loans meets the standards for satisfactory performance, given the strong level of competition. To reach this conclusion, the OCC analyzed 20 one-to-four family residential real estate loans, inside the AA, originated between January 1, 2012 and December 31, 2013. We compared this data to peer mortgage data. The peer mortgage data consists of HMDA reportable loans extended within First Federal's AA. See Table 3 for details.

### Geographic Distribution of Residential Real Estate Loans

The geographic distribution of loans into low- and moderate-income CTs is reasonable. The analysis reflects lending in all tracts. There are four low-income and 13 moderate-income CTs in First Federal's AA. The Bank originates the majority of one-to-four family residential real estate loans, their primary loan product, in Perry County. Perry County does not have any low-income CTs. The low-income CTs are located in Breathitt and Clay counties. Moderate-income CTs are located in Breathitt, Clay, Knott, Leslie, Letcher, and Perry counties. First Federal originated one loan, or five percent, to a borrower living in a low-income CT and originated six loans, or 30 percent, to borrowers living in moderate income CTs. First Federal's geographic distribution is well-above peer group averages.

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans in First Federal's AA 2012-2013</b>			
<b>Census Income Tract Level</b>	<b>#</b>	<b>%</b>	<b>% Peer Mortgage Data</b>
Low	1	5.0	0.56
Moderate	6	30.0	11.3
Middle	13	65.0	81.5
Upper	0	0.0	6.6
Total	20	100	100

*Sources: A random sample of 20 residential real estate loans in the AA originated between January 1, 2012 and December 31, 2013 and 2012 Peer Mortgage Data*

**Responses to Complaints**

First Federal did not receive any CRA 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 AA 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.