



## **PUBLIC DISCLOSURE**

August 19, 2013

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

Citizens Federal Savings & Loan Association  
Charter Number 700375

433 Madison Ave  
Covington, KY 41011-1519

Office of the Comptroller of the Currency

West Lake Center  
4555 Lake Forest Drive, Suite 610  
Blue Ash, OH 45242-3760

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

## **INSTITUTION'S CRA RATING: This institution is rated Satisfactory**

Citizens Federal Savings & Loan Association ("Citizens" or "Institution") exhibits a **satisfactory** record of meeting community credit needs. This rating is primarily based on the following:

- Citizens' current and average loan-to-deposit (LTD) ratio of 91.83 percent is reasonable.
- Citizens lends a majority of residential real estate loans inside their assessment area (AA).
- Citizens' overall distribution of lending to borrowers of different income levels is reasonable and meets the standard for satisfactory performance.
- Citizens' overall geographic distribution of loans to low- and moderate-income census tracts (CT) in its AA is excellent. Citizens made loans in all CTs in the AA with no conspicuous gaps.

## **SCOPE OF EXAMINATION**

We conducted a full scope Community Reinvestment Act (CRA) evaluation to assess Citizens' record and performance of meeting the credit needs of its community. We used the small savings and loan association evaluation procedures to evaluate the institution's performance.

The institution's performance regarding its primary lending product is considered foremost in this CRA examination. We identified residential real estate lending (home purchase and home refinances) as the primary loan product based on our discussions with management and review of loan originations during the lending evaluation period. The lending evaluation period was January 1, 2009 through June 30, 2013. We reviewed the institution's quarterly LTD ratio from December 31, 2008 through June 30, 2013.

To perform our analysis of lending inside the AA, we used all residential real estate loans listed on the institution's loan application register (LAR) during the lending evaluation period. We used 2000 U.S. Census data for loans originated in 2011, 2010, and 2009. We used 2010 U.S. Census data for loans originated in 2012 through June 30, 2013. In the borrower and geographic distribution analysis, we removed any loans originated outside the bank's AA.

## **DESCRIPTION OF INSTITUTION**

Citizens is a federally chartered, mutual savings association with total assets of approximately \$35.33 million as of June 30, 2013. Citizens operates one office located in Covington, Kentucky. The census tract of the office location changed from a middle-income CT per the 2000 U.S. Census to an upper-income CT per the 2010 U.S. Census.

The lobby and drive-in are open for business from 8:30 a.m. to 4:30 p.m., Monday through Thursday, and open until 6:00 p.m. on Friday. Citizens is not open on Saturday or Sunday. Citizens does not operate an Automated Teller Machine (ATM), nor does it issue ATM cards.

As a traditional savings association, the Institution has concentrated its operations in the origination of mortgage loans and the acceptance of deposits. Citizens engages primarily in the origination of residential real estate loans. As of June 30, 2013, net loans and leases represents approximately 55 percent of the Institution's total assets.

Citizens offers conventional fixed- and adjustable-rate first and second mortgages for the purchase, refinance, and home improvement, as well as for the construction/rehabilitation of single-family residences. Loans secured by customer deposits, multi-family, and home equity loans are also available. The Institution maintains all of its mortgage loan production in its portfolio. Citizens offers a traditional array of deposit products (checking, savings, CDs, and IRAs).

There are no financial or legal impediments that would affect Citizens ability to serve the credit needs of its community. Citizens' previous CRA rating was "Satisfactory" as of December 19, 2008.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

Citizens' has one AA comprised of Kenton County, Kentucky in its entirety. Kenton County is located in the northern Kentucky region of the state and is a part of the Cincinnati, OH MSA. Kenton County includes a mix of rural and urban communities. The AA does not exclude any low- or moderate-income CTs and meets the requirements of the regulation.

As of May 31, 2013, unemployment figures for the county are below or equal to the state of Kentucky and national averages. Kenton County currently has an unemployment rate of 7.3 percent, compared to the non-seasonally adjusted statewide average of 8.3 percent and national average of 7.3 percent. Kenton County has had historically lower unemployment rates than the rest of the state.

Competition in the AA is substantial with eighteen other institutions located in the bank's AA. This included several institutions that are multi-state, regional, national, or larger institutions with branches outside of the AA such as Bank of Kentucky, Fifth Third Bank, PNC Bank, Huntington National Bank, and U.S. Bank, NA. There are also several smaller, local institutions in the AA. Citizens had approximately 1.09 percent of the deposit market share in Kenton County, which represents the thirteenth largest deposit market-share percentage in comparison to the eighteen competing institutions in Kenton County.

The economy of the AA is diversified and not heavily dependent upon any one industry or employer. Some of the area's largest employers are the Internal Revenue Service, Kroger Company, Procter & Gamble, Toyota Motor Engineering and Manufacturing, GE

Aviation, and Delta Airlines. In addition, there are numerous service industry businesses as well as federal, state, municipal, educational, and medical systems throughout the AA.

We included discussion with one community contact in our evaluation of the bank's CRA performance. The community contact indicated that the primary credit needs of the AA include providing affordable housing for residents and increasing employment opportunities in the community through small business lending, as well as a need to increase financial literacy educational opportunities. The community contact expressed that local financial institutions, including Citizens, are making positive contributions to help serve the credit needs of the community.

*Information as of 2000 U.S. Census Data*

According to the 2000 Census, the AA had 41 CTs with income designations including 4 low-income (10 percent), 10 moderate-income (24 percent), 23 middle-income (56 percent), and 4 upper-income CTs (10 percent). The population of the AA was 151,464, with 10 percent living in low-income census tracts, 24 percent living in moderate-income census tracts, and 56 percent living in middle-income census tracts. The AA has 39,457 families. Of these families, 19 percent are low-income, 20 percent are moderate-income, 25 percent are middle-income, and 36 percent are upper-income. The HUD Adjusted Median Family Income for 2010 was \$54,771 in the Cincinnati MSA. In the AA, 9 percent of households are living below the poverty level and 3 percent of households receive public assistance.

Owner occupied housing makes up 62 percent of housing units with 32 percent consisting of rental units. Approximately 7 percent of the housing units in the AA are vacant. The average median home value is \$111,866 and rents average \$509 per month.

*Information as of 2010 U.S. Census Data*

According to the 2010 Census, the AA had 41 CTs with income designations including 4 low-income (10 percent), 11 moderate-income (27 percent), 17 middle-income (41 percent), and 9 upper-income CTs (22 percent). The population of the AA was 159,720, with 10 percent living in low-income census tracts, 27 percent living in moderate-income census tracts, and 41 percent living in middle-income census tracts. The AA has 40,238 families. Of these families, 20 percent are low-income, 19 percent are moderate-income, 22 percent are middle-income, and 39 percent are upper-income. The HUD Adjusted Median Family Income for 2012 was \$67,515 in the Cincinnati MSA. In the AA, 10 percent of households are living below the poverty level and 2 percent of households receive public assistance.

Owner occupied housing makes up 62 percent of housing units with 28 percent consisting of rental units. Approximately 10 percent of the housing units in the AA are vacant. The average median home value is \$152,529 and rents average \$680 per month.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Based on the criteria for the CRA lending test, the bank’s lending performance is satisfactory.

### Loan-to-Deposit Ratio

- The LTD ratio is reasonable given the bank’s size, financial condition, and assessment area credit needs.

Citizens’ average LTD ratio over nineteen quarters since the prior CRA examination (December 31, 2008 through June 30, 2013) is 91.83 percent. Citizens’ LTD ratio ranged from a high of 106.15 percent to a low of 77.25 percent between examinations. The LTD ratio has been trending downward since the beginning of 2011 primarily due to decreased loan demand and the institution’s competitive deposit rates. The quarterly peer average LTD ratio of four similarly situated financial institutions located in Kenton County is 92.45 percent (asset sizes of peer institutions ranged from \$29.63 million to \$473.46 million). Peer average LTD ratios ranged from a low of 81.89 percent and a high of 115.15 percent over the same timeframe.

### Lending in Assessment Area

- Citizens lends a majority of residential real estate loans inside their AA.

Our review of Citizens’ residential real estate loan originations from January 1, 2009 through June 30, 2013 revealed sixty-seven percent were made to borrowers located inside the AA. We noted that lending activity conducted outside of the AA was primarily limited to the two bordering counties in the northern Kentucky area. Details are in the table below.

<b>Lending in Kenton County Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate Purchase & Refinance Loans	63	67%	30	32%	93	6,717	63%	3,957	37%	10,674

*Source: Loan sample; loans originated from January 1, 2009 through June 30, 2013.*

### Lending to Borrowers of Different Incomes

- Citizens’ overall distribution of lending to borrowers of different income levels is reasonable and meets the standard for satisfactory performance.

*Information as of the 2000 U.S. Census; Loans originated from 2009 through 2011.*

Citizens’ proportion of refinance loans to moderate-income borrowers significantly exceeds the peer aggregate percentage of similarly situated lenders in the AA and percentage of moderate-income families in the AA. Citizens’ distribution of home purchase loans to low-income borrowers slightly exceeds the peer aggregate distribution percentage and percentage of low-income families living in the AA. Citizens’ percentage of home purchase loans to moderate-income families was slightly less than the peer aggregate distribution percentage, but was slightly above the percentage of moderate-income families in the AA. Approximately 7.1 percent of families in the AA live below the poverty level and may not qualify for a home loan. Refer to the following table for details.

<b>Borrower Distribution of Residential RE Loans in Kenton County AA</b>					
Borrower Income Level	% Total Citizens FS & LA Loans		% of Loans by AA Lenders		% of Families in Each AA Income Level
	Purchases	Refinances	Purchases	Refinances	
Low	23.1	9.7	17.7	6.5	19.0
Moderate	23.1	35.5	28.8	17.9	19.6
Middle	15.4	22.6	20.6	21.5	25.2
Upper	30.8	32.3	18.8	34.7	36.2
NA	7.7	0.0	14.1	19.4	0.0

*Source: Loans originated in 2009 through December 31, 2011; 2000 U.S. Census data.*

*Information as of the 2010 U.S. Census; Loans originated in 2012 through June 30, 2013.*

Citizens’ proportion of refinance loans made to low-income borrowers significantly exceeds peer aggregate distributions, as well as the percentage of low-income families in the AA. Citizens did not have any home purchase loans from 2012 through June 30, 2013 to low- or moderate-income borrowers. However, Citizens’ only originated four home purchase loans during this timeframe, which is a mitigating factor for the weak distribution to low- and moderate-income borrowers in the home purchase category. Approximately 8.4 percent of families in the AA live below the poverty level and may not qualify for a home loan. Refer to the table below for details.

<b>Borrower Distribution of Residential RE Loans in Kenton County AA</b>					
Borrower Income Level	% Total Citizens FS & LA Loans		% of Loans by AA Lenders		% of Families in Each AA Income Level
	Purchases	Refinances	Purchases	Refinances	
Low	0.0	33.3	18.0	6.2	20.4
Moderate	0.0	6.7	26.9	16.9	19.1
Middle	50.0	40.0	18.1	21.0	22.0
Upper	25.0	20.0	19.5	37.6	38.6
NA	25.0	0.0	17.6	18.3	0.0

Source: Loans originated in 2012 through June 30, 2013; 2010 U.S. Census data.

### Geographic Distribution of Loans

- Citizens’ overall geographic distribution of residential real estate loans made to low- and moderate-income CTs in its AA is excellent. We did not identify any conspicuous gaps in Citizens’ loan distribution.

Information as of the 2000 U.S. Census; Loans originated from 2009 through 2011.

Citizens’ home purchase and refinance lending percentage to borrowers located in low- and moderate-income CTs significantly exceeds the aggregate industry distribution percentages in both categories. Refer to the table below for details.

<b>Geographic Distribution of Residential RE Loans in Kenton County AA</b>					
Census Tract Income Levels	% of Citizens FS & LA Loans		% of AA Lender Loans		% of AA Owner Occupied Units
	Purchases	Refinances	Purchases	Refinances	
Low	15.4	6.5	2.9	1.5	3.5
Moderate	53.9	41.9	13.1	8.2	18.0
Middle	23.1	45.1	73.4	71.0	62.6
Upper	7.6	6.5	10.6	19.3	15.9

Source: Loans originated in 2009 through December 31, 2011; 2000 U.S. Census data.

Information as of the 2010 U.S. Census; Loans originated from 2012 through August 16, 2013.

The percentage of Citizens’ refinance loans made to low- and moderate-income CTs significantly exceeds the aggregate industry percentages in both income categories. Approximately 7 percent of Citizens’ refinance loans were made to low-income CTs and 27 percent were made to moderate-income CTs. None of Citizens’ four home purchase loan originations were to borrowers situated in low- or moderate-income CTs. Only 3

percent of owner occupied units in the AA are located in low-income CTs, indicating minimal opportunity to lend in low-income CTs. Refer to the following table for details.

<b>Geographic Distribution of Residential RE Loans in Kenton County AA</b>					
Census Tract Income Levels	% of Citizens FS & LA Loans		% of AA Lender Loans		% of AA Owner Occupied Units
	Purchases	Refinances	Purchases	Refinances	
Low	0.0	6.7	2.0	1.3	3.3
Moderate	0.0	26.7	17.2	12.2	20.3
Middle	75.0	53.3	61.3	56.7	53.5
Upper	25.0	13.3	19.5	29.8	22.9

*Source: Loans originated in 2012 through June 30, 2013; 2010 U.S. Census data.*

### **Responses to Complaints**

This institution has not received any complaints about its performance in helping to meet the credit needs of its AA since the previous CRA examination.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.