



PUBLIC DISCLOSURE

May 20, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Winchester Federal Bank
Charter Number: 703267

57 S. Main Street
Winchester, Kentucky 40391

Office of the Comptroller of the Currency

10200 Forest Green Blvd.
Suite 501
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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 Winchester Federal Bank Winchester, Kentucky (WFB). The evaluation was prepared by the Office of the Comptroller of the Currency (OCC), the institution's primary regulator, as of March 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 OVERALL CRA RATING: SATISFACTORY

WFB has a satisfactory record of meeting the credit needs of its community. This conclusion is based on the following.

- The average loan-to-deposit ratio is more than reasonable given WFB's size, financial condition, and the credit needs of its assessment area (AA).
- A substantial majority of WFB's loans were originated to borrowers within its AA.
- WFB's distribution of loans to low- and moderate-income individuals reflects reasonable penetration.
- WFB's geographic distribution of loans reflects reasonable dispersion throughout the AA.

SCOPE OF THE EXAMINATION

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

The CRA evaluation covers the period between October 1, 2008 and March 31, 2013. The lending test considered a random sample of loans originated by WFB between January 1, 2010 and December 31, 2011. The scope of the lending test included a review of WFB's primary loan product – residential real estate mortgages. 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 portfolio, using source documents to collect the data.

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

DESCRIPTION OF THE INSTITUTION

WFB is a full-service, intrastate institution. It is wholly owned by Winfirst Financial Corporation, a single thrift holding company located in Winchester, Kentucky. WFB is located in Central Kentucky off U.S. Interstate 64, approximately 20 miles east of Lexington, Kentucky. As of March 31, 2013, WFB had approximately \$158 million in total assets, \$98 million in deposits, \$120 million in loans, and \$17 million in tier 1 capital. WFB operates from a main office and

single branch location, both in the AA. The facilities are full service and the branch has an Automated Teller Machine (ATM) on location.

As of March 31, 2013, net loans represented approximately 74 percent of average assets. The loan portfolio mix was as follows: one-to-four family residential real estate loans (72.8 percent), business purpose loans (24.9 percent), farm or farm-related loans (2.1 percent), and consumer loans (0.2 percent). WFB's primary lending focus is residential real estate mortgages.

WFB offers traditional banking services and lending products. WFB continues to be community oriented and offer a wide variety of loan products including residential real estate, commercial real estate, agricultural, and consumer loans.

There are no legal or financial circumstances that impact WFB's ability to meet the credit needs of its community. The last CRA evaluation was performed by the Office of Thrift Supervision (OTS) on November 12, 2008.¹ WFB received a satisfactory rating.

DESCRIPTION OF THE ASSESSMENT AREA

WFB's AA consists of Clark County, Kentucky. The AA is appropriate in relation to the location of WFB's offices and does not arbitrarily exclude any low- or moderate- income areas.

According to the 2000 United States (U.S.) Census, the population of Clark County was approximately 33,100, which increased to approximately 35,600 as of the 2010 U.S. Census. The county is located in the Lexington-Fayette Metropolitan Statistical Area (MSA). The 2000 U.S. Census divides Clark County into eight census tracts (CTs), with zero low-income CTs, two moderate-income CTs, four middle-income CTs, and two upper-income CTs.

As of March 31, 2013, Clark County's unemployment rate was 7.9 percent, which is slightly lower than the Kentucky unemployment rate of 8 percent. The major industry in Clark County is services, followed by manufacturing, trade, transportation, and utilities. The Kentucky Cabinet for Economic Development lists the following companies as the largest employers in the county.

- Hewlett-Packard (HP) employs approximately 430 individuals. HP operates a call center in Clark County.
- Catalent Pharma Solutions employs approximately 330 individuals in pharmaceutical processing.
- East Kentucky Power Cooperative, Inc. employs approximately 270 employees at their headquarters in Clark County. The company generates and transmits electrical power.
- Leggett and Platt, Inc. employs approximately 250 employees and manufactures inner springs and box springs.

According to the Federal Deposit Insurance Corporation (FDIC), there are a total of nine financial institutions in the AA, ranging from small community banks to a branch of a large

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

national bank. The total deposits (inside the AA) of these branches or banks range from \$348 thousand to \$107 million. WFB is the fifth largest bank in the AA in relation to deposits, with a 14 percent deposit market share. WFB’s major competition in the AA consists of Traditional Bank, Inc., Peoples Exchange Bank, Branching Bank and Trust Company (BB&T), and Central Bank & Trust Co.

We performed one community contact interview during our evaluation. The contact indicated local banks are active in meeting the community’s needs.

The following demographic information covering WFB’s AA of Clark County is based on 2000 census data, unless otherwise indicated.

Demographic Information for Clark County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	8	0.00%	25.00%	50.00%	25.00%	0.00%
Population by Geography	33,144	0.00%	42.48%	40.13%	17.39%	0.00%
Owner-Occupied Housing by Geography	8,933	0.00%	36.49%	42.58%	20.93%	0.00%
Businesses by Geography	3,467	0.00%	43.18%	38.68%	18.14%	0.00%
Farms by Geography	154	0.00%	25.97%	42.21%	31.82%	0.00%
Families by Income Level	9,521	23.08%	21.11%	23.13%	32.68%	0.00%
Distribution of Low- and Moderate-Income Families throughout AA Geographies	4,207	0.00%	51.34%	38.06%	10.6%	0.00%
MSA Median Family Income	\$51,365					
HUD Updated MSA Median Family Income for 2012	\$67,100	Median Housing Value				\$94,511
Households Below the Poverty Level	10.98%	Unemployment Rate				7.9%

(*) The NA category consists of geographies not assigned an income classification.
 Source: 2000 U.S. Census and 2012 U.S. Department of Housing and Urban Development (HUD) updated MSA Median Family Income. These figures were obtained directly from U.S. Census data and may or may not total exactly 100 percent.

CONCLUSIONS ABOUT THE PERFORMANCE CRITERIA

Lending Test

WFB’s performance under the lending test is satisfactory. The average loan-to-deposit (LTD) ratio is more than reasonable and a substantial majority of loans originated were inside WFB’s AA. WFB’s borrower distribution reflects reasonable penetration among borrowers of different

income levels. WFB’s geographic distribution reflects reasonable dispersion. There were no complaints regarding WFB’s performance in meeting the credit needs of the community.

Loan-to-Deposit Ratio

The LTD is more than reasonable given WFB’s size and financial condition. The LTD averaged 150 percent over the 18 quarters since the previous CRA examination. The LTD ranged from a quarterly low of 123 percent to a quarterly high of 202 percent during the time period.

We compared WFB to two similarly situated banks. These banks are comparable to WFB in asset size, deposit size, number of offices, and major lending products. WFB’s LTD of 150 is higher than the LTD of the other banks. WFB was able to achieve a high LTD despite the high level of poverty, high number of rental properties, and strong competition in the AA. The table below shows the average LTD of the other banks for the period under review ranged from 91 percent to 109 percent.

Institution	Average LTD
Winchester Federal	149.68
Bank 1	109.43
Bank 2	90.93

Lending in the Assessment Area

A substantial majority of loans and other lending-related activities are inside WFB’s AA. Table 1 shows that 100 percent of the loans were made to borrowers inside the AA. To reach this conclusion, the OCC analyzed WFB’s lending activity by selecting a random sample of 20 residential loans originated between January 1, 2010 and December 31, 2011.

Loan Type	Number of Loans				Total	Dollars of Loans (000’s)				
	Inside		Outside			Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate Loans	20	100%	0	0%	20	\$428	100%	\$0	0%	\$428

**Source: Randomly selected sample of one-to-four family residential loans originated between January 1, 2010, and December 31, 2011.*

Lending to Borrowers of Different Incomes

The distribution of loans reflects reasonable penetration among individuals of different income levels. To reach this conclusion, the OCC analyzed WFB’s lending activity by selecting a random sample of 28 residential loans originated within the AA between January 1, 2010 and December 31, 2011. See Table 2 for details.

Income Distribution of Residential Real Estate Loans

The distribution of loans, given the demographics of the AA, reflects reasonable penetration among individuals of different income levels, including low- and moderate-income families. According to the 2000 U.S. Census, households in the AA below the poverty level total approximately 11 percent. Approximately 27 percent of households in the AA receive social security benefits, and a large percentage (32 percent) of total housing units are rental properties. These factors can provide barriers to home ownership. Low-income borrowers may have difficulty meeting the credit standards of the primary and secondary residential real estate credit markets. Low-income borrowers may also rent a home as opposed to own.

WFB originated 18 percent of the sampled loans to low-income families and 32 percent to moderate-income families. Although the random sample selected is below the demographic comparator of 23 percent for low-income families, it exceeds the comparator of 21 percent for moderate-income families. The level of penetration is reasonable given the barriers detailed above and AA demographics.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Clark County								
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
Residential Real Estate Loans	23.08%	17.86%	21.11%	32.14%	23.13%	17.86%	32.68%	32.14%

Source: Percent of AA Families derived from 2000 U.S. Census data. Random sample of one-to-four family residential real estate loans originated between January 1, 2010 and December 31, 2011.

Geographic Distribution of Loans

The overall geographic distribution of loans reflects reasonable dispersion throughout the AA given the strong level of competition. To reach this conclusion, the OCC analyzed WFB’s lending activity by selecting a random sample of 28 residential loans originated within the AA between January 1, 2010 and December 31, 2011. See Table 3 for details.

Geographic Distribution of Residential Real Estate Loans

The geographic distribution of loans reflects reasonable dispersion into moderate-income census tracts. The analysis reflects lending in all tracts. There are no low-income census tracts in WFB’s AA. WFB originated 18 percent of their residential real estate loans to borrowers living in moderate-income census tracts. WFB’s lending performance in moderate-income census tracts is lower than the demographic comparator of 37 percent. This is a reasonable performance given the high level of poverty, rental properties, and competition in the AA.

Table 3 - Geographic Distribution of 1-4 Family Residential Loans By Geography Income Designation Originated Between January 1, 2010 and December 31, 2011					
Income Level of Census Tracts	1-4 Family Residential Loans				Distribution of Owner- Occupied Housing
	Number of Loans	Percentage	Dollars \$(000's)	Percentage	
Low	0	0.00%	\$0	0.00%	0.00%
Moderate	5	17.86%	\$95	15.47%	36.49%
Middle	11	39.28%	\$248	40.39%	42.58%
Upper	12	42.86%	\$271	44.14%	20.93%
Total	28	100.00%	\$614	100.00%	100.00%

Responses to Complaints

WFB has not received any CRA complaints during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 195.28(c), the OCC must consider in its CRA ratings evidence of discriminatory or other illegal credit practices in any geography by WFB or in any AA by an affiliate whose loans have been considered as part of WFB's lending performance.

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