

PUBLIC DISCLOSURE

November 27, 1995

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Lancaster Federal Savings Bank
Docket No.: 07058
208 Lexington Street
Lancaster, Kentucky 40444

Office of Thrift Supervision
Central Region
200 West Madison Street, Suite 1300
Chicago, Illinois 60606

NOTE: 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.

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act ("CRA") performance of First Lancaster Federal Savings Bank, Lancaster, Kentucky ("First Lancaster") prepared by the Office of Thrift Supervision, the institution's supervisory agency.

The evaluation represents the agency's current assessment and rating of the institution's CRA performance based on an examination conducted as of November 27, 1995. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under five performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to Improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial Noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

This institution is rated "Outstanding record of meeting community credit needs" based on the findings presented below:

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

Ascertainment activities during the review period were reasonable and adequate for an institution of this size in a small rural community. Most of the efforts to ascertain the credit needs of the community and to communicate services provided by First Lancaster involve personal contacts. Lending results (Factors I and E) indicate that there is good communication of credit services, including communication to low- and moderate-income individuals. First Lancaster does not have a formal, written CRA program.

Among the community organizations with which representatives of First Lancaster are actively involved are the Lancaster Housing Authority, the Lancaster Industrial Board and a private low-income housing organization. These involvements specifically make management and the directors aware of the needs for affordable and low-income housing. There are also regular contacts with city and county officials.

Realtor contacts are also important to management as a means to ascertain credit needs and to communicate credit offerings. First Lancaster seeks to maintain ongoing contact with the Realtors serving the Garrard County area and contiguous counties. An annual Realtor's breakfast is held and all the area Realtors are encouraged to attend and meet with First Lancaster's staff and board of directors.

Two representatives of the institution led a seminar on home financing as part of the Home, Lawn and Garden Day at Garrard County High School in March 1995. At the same event, two directors led a seminar on appraisals.

No new programs have been adopted as a result of ascertainment activities. Management feels that the current programs address the credit needs of the community to the extent practical for a small institution. Specifically, the need for high loan-to-value mortgage loans, small mortgage loans and somewhat relaxed underwriting criteria for low- and moderate-income individuals are address as discussed in Factor E.

DISCUSSION OF INSTITUTION'S PERFORMANCE (Continued)

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

The board of directors has been active in formulating policies and reviewing performance with respect to the purposes of the Community Reinvestment Act. The Statement and delineated community are reviewed and updated as needed and at least one time each year.

The board receives quarterly reports on loans granted including information by county, by race and sex of applicants and by various borrower income levels. The board also discusses ways to meet the needs of the community and potential community development projects. Board member participation in community development projects is further described under Factor H.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

First Lancaster's marketing efforts are efficient and effective. Advertising consists of print advertising in the two local newspapers on a fairly regular basis (one to two times a month). Advertising is also placed in two regional newspapers several times per year, in the local homes for sale magazine, and in various school and special event programs. Most advertisements are for name recognition.

The most frequent advertising is through a local radio station serving Garrard and neighboring counties. Advertising spots are specifically targeted to be heard during broadcast of local high school football and basketball games as well as during the day. A billboard on US Route 27 south of Lancaster is also used to advertise.

Several of the mortgage advertisements reviewed included mentions of first-time homebuyer assistance. A free "Mortgage Planning Guide" was offered. Advertisements included the equal lending legend and logo.

Two representatives led a seminar on home financing as part of a Home, Lawn and Garden Day at the Garrard County High School. At the same event, two of the directors also led a seminar on appraisals.

DISCUSSION OF INSTITUTION'S PERFORMANCE (Continued)

The institution has no formal special credit programs; however, it has granted greater than 80 percent loan-to-value loans to low- and moderate-income individuals to purchase homes. First Lancaster's loan underwriting allows liberal standards which include alternative evidence of willingness to pay such as rental histories and higher debt-to-income ratios for lower income individuals. Factor E provides information regarding loans granted under these guidelines.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

First Lancaster has a good record of lending within its local community. During the 27-month period from July 1, 1993 through September 30, 1995, 373 mortgage loans were granted totaling \$18.7 million. Of these, 242 (65 percent) were granted on properties located in the local community. The remaining loans were split, with sixty-three loans (17 percent) granted in Jessamine County, which is just north of Garrard County and sixty-eight loans (18 percent) granted spread over seven other surrounding counties.

First Lancaster does not grant loans separately classified as home improvement loans, small business loans or small farm loans. Management feels that they do not have expertise to grant loans other than dwelling related mortgage loans and occasional commercial or multi-family mortgage loans. Some of the dwelling related mortgage loans may be used for home improvements or other purposes.

Assessment Factor J - The institution's participation in governmentally insured, guaranteed, or subsidized loan programs for housing, small businesses, or small farms.

First Lancaster does not grant any loans under government programs at this time.

One community contact indicated that there are currently no government loan programs active in Garrard County. FHA and other subsidized loans are available if the borrower goes to Stanford (Lincoln County), Kentucky approximately 10 miles away.

DISCUSSION OF INSTITUTION'S PERFORMANCE (Continued)

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

First Lancaster's delineated community consists of Garrard County Kentucky. This area is reasonable considering the size and resources of the institution. Management stated that they identified Garrard County as their local community because they feel that the majority of all deposits are from Garrard County. No low- or moderate-income areas are arbitrarily excluded from the community.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

First Lancaster's record of extending credit to all segments of its community, including low- and moderate-income is excellent.

First Lancaster is located in a rural area and does not have any offices within a metropolitan statistical area ("MSA"). Accordingly, the institution is not subject to Home Mortgage Disclosure Act ("HMDA") requirements. A loan application register ("LAR") is maintained as an internal document. The county borders on two counties which are in the Lexington MSA.

Applicant monitoring information is maintained to facilitate management's fair lending and CRA analysis of lending patterns. Income data is not kept in the prescribed form for HMDA; therefore, the analysis of borrower incomes is presented using the data available on the LAR. This data demonstrates that loans are granted over widely varying incomes and that low- and moderate-income individuals within the community are served.

Management defines low income as families with incomes up to \$12,000 per year, low-moderate income as income from \$12,001 to \$24,000 per year and moderate-median income is defined as income from \$24,001 to \$36,000 per year. As can be seen from the following comparison, use of these numbers is reasonable. Garrard County's median income is comparable to the upper limit of moderate income for the state as a whole and considerably less than the limit of moderate for the adjoining MSA.

DISCUSSION OF INSTITUTION'S PERFORMANCE (Continued)

COMPARISON OF INCOME RANGES, KENTUCKY AS A WHOLE, LEXINGTON MSA

	Kentucky (1)	Lexington (1)	GarrardCounty (2)
Median Family Income	\$29,956	\$32,687	\$24,000
Low Income, Less than 50% median	\$14,900	\$16,340	\$12,000
Moderate Income, Less than 80% median	\$23,900	\$26,150	\$19,200

(1) 1990 Census

(2) 1992 Federal Housing Finance Board

FIRST LANCASTER FSB, RECORD OF LENDING TO LOW- AND MODERATE-INCOME

INCOME RANGE	Less than		from		\$12,000 over
\$24,000	\$12,000		to \$24,000		
TIME PERIOD					
6 MOS ended 12/31/93	4	4%	24	25%	69
year ended 12/31/94	13	7%	42	23%	127
9 MOS ENDED 9/30/95	4	4%	21	22%	69
TOTAL LOANS	21	6%	87	23%	265

Loan Date from quarterly reports to the board of directors.

This table shows that First Lancaster is granting loans which assist low- and moderate-income individuals to purchase affordable housing.

The LAR identified 14 loans (4 percent of total loans) granted during the review period to borrowers with \$24,000 or less annual income and with loan-to-value ratios in excess of 80 percent. Seven of these loan files were reviewed for monitoring information and borrower data. The review disclosed that three borrowers had incomes less than \$13,000 per year. Additionally, four of the borrowers had very limited or no prior credit history while another had had delinquency problems. Three of the borrowers also had total debt-to-income ratios exceeding 40 percent. One loan was granted with a cosigner and some additional collateral was used to bring loan-to-value under 95 percent on one loan (though still above 80 percent). Management stated that they wanted to keep the total amount invested in such loans to about \$200,000. As these loans pay off, or pay down to below 80 percent loan-to-value, more loans may be granted.

DISCUSSION OF INSTITUTION'S PERFORMANCE (Continued)

The geographic analysis of lending patterns is limited to noting in which counties loans are granted and the number and dollar amount of lending in each county. For the delineated community, Garrard County, neither block numbering data nor zip code data is meaningful since most of the county is comprised of a single block numbering area and zip code.

Garrard County was considered a "targeted area" by the Kentucky Housing Corporation, based on the 1990 census. This indicates that the entire county is considered a low- to moderate-income area for the purpose of grants and low interest loans.

According to management, Garrard County has a minority population of four percent. First Lancaster received fourteen applications for first mortgage loans from minorities. All fourteen loans were granted, which represents four percent of the total loans granted during the review period.

There were four applications denied during the review period, one of which involved an applicant who did not accept changed terms. Twenty-two applications were withdrawn. There were no significant patterns noted in the review of these applications. Two of the four denied applications involved properties which were not in the local community. Most (16) of the withdrawn applications and the one of the denials involved properties which were within the local community.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

First Lancaster has one office, located near the center of Lancaster, Kentucky, the county seat of Garrard County. The hours and location provide reasonable access for all segments of the delineated community, including low- and moderate-income.

During the review period, the institution had a significant addition built to their office which allows for two drive-in teller lines. Teller hours were expanded from 9:00 a.m. - 2:30 p.m. to 9:00 a.m. - 5:00 p.m. with this expansion. The lobby is open from 9:00 a.m. to 2:30 p.m.; however, loan officers are available until 5:00 p.m. every day on an as needed basis. The lobby and the drive-in lines are open until 6:00 p.m. on Fridays.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

No practices were noted which would discourage any applications for any types of credit offered.

DISCUSSION OF INSTITUTION'S PERFORMANCE (Continued)

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

No evidence was found of any discriminatory or other illegal credit practice. The review of denied and withdrawn applications indicates that all denied applications were for legitimate business reasons and that there is no evidence that any borrowers were encouraged to withdraw applications. No minority applicants were denied during the review period.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

First Lancaster's participation in community development and redevelopment projects within its community is exceptional. First Lancaster and its officers have shown leadership in community development and a sincere desire to work to improve conditions for all segments of their community, including low- and moderate-income areas. One representative has been very involved in the efforts to improve availability of affordable housing for very low income residents of the city of Lancaster.

First Lancaster has made two attempts to obtain block grant money to rehabilitate 35 houses in an area of the city which is very low income and includes a sizable portion of Lancaster's minority population. This area, known as Maple Street East, lies adjacent to First Lancaster's office. These houses are primarily single family dwellings in need of rehabilitation. Funds would be targeted at rehabilitation, street improvements, sewers and drainage lines.

In order to apply for the block grants, a financial institution had to guarantee funding for those residents who would not qualify for grants. First Lancaster guaranteed that \$51,000 in low interest loans would be made available. With the delays in the project, First Lancaster has gone ahead and granted two loans to residents of the area to upgrade their own properties. If the block grant is not obtained early in 1996, a representative of the institution stated that he would seek Federal Home Loan Bank grant money and possibly other funds to continue with the project.

DISCUSSION OF INSTITUTION'S PERFORMANCE (Continued)

First Lancaster is involved in a project to renovate the Governor Owsley House, a historical building, which will serve, when completed, as a public meeting place and quarters for several agencies and organizations including the Garrard County Chamber of Commerce and the Industrial Authority. Delays in obtaining federal grant money to acquire and rehabilitate the property nearly caused the owner to back out of the sale, which would have resulted in the demolition of the house. With First Lancaster as the lead lender, three banks participated (\$20,000 each) in a loan to the historical society for the acquisition of the house. When the loan was repaid, First Lancaster donated the amount of interest due to the project.

The city of Lancaster is working on a downtown revitalization project. First Lancaster has donated \$4,000 to the project and tentatively committed to granting some loans in conjunction with the project when it actually begins.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, and legal impediments, local economic conditions and other factors.

First Lancaster is a very small institution with \$35.0 million in total assets. Loan demand during 1994 exceeded its available funds, and advances were obtained between July 1994 and May 1995 to fund loan demand. Savings rates were also increased drawing in about \$1.5 million in additional deposits. Management stated that they preferred to fund loans with deposits but felt that it was also important to meet the loan demands of the community.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

In 1995, a representative of First Lancaster assisted in the formation of a private low income housing agency. That individual is currently leading fund raising efforts of the chapter so that they can acquire property and begin its first house. First Lancaster has provided meeting space and a temporary headquarters and has advertised a fund raising event for this agency. The group may be permanently quartered in the Owsley House when it is completed.

First Lancaster began a scholarship program in 1994. This program provides a four year, \$6,000 college or post secondary education scholarship to a student graduating from Garrard County High School and is based on need and ability.