

# **PUBLIC DISCLOSURE**

**May 16, 2011**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Highland Federal Savings & Loan Association  
106 South Main St, Suite 103  
Crossville, Tennessee 38555-4694  
Docket #: 06581**

**Office of Thrift Supervision  
Southeast Region  
1475 Peachtree Street, N.E.  
Atlanta, Georgia 30309**

**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.



## Office of Thrift Supervision

Department of the Treasury

*Southeast Region*

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May 26, 2011

Board of Directors  
Highland Federal Savings & Loan Association  
106 South Main Street, Suite 103  
Crossville, Tennessee 38555-4694

Members of the Board:

Enclosed is your institution's written Community Reinvestment Act (CRA) Performance Evaluation. The Office of Thrift Supervision (OTS) prepared the evaluation as of May 16, 2011. Pursuant to the provisions of the CRA and OTS regulations (12 C.F.R. 563e), your institution must make this evaluation and your institution's CRA rating available to the public.

In accordance with 12 C.F.R. 563e, your institution must make this written CRA Performance Evaluation available to the public within 30 business days of receiving it. You must place the evaluation in your CRA public file at your home office and at each branch within this time frame. You may not alter or abridge the evaluation in any manner. At your discretion, you may retain previous written CRA Performance Evaluation(s) with the most recent evaluation in your CRA public file.

Your institution may prepare a response to the evaluation. You may place the response in each CRA public file along with the evaluation. In the event your institution elects to prepare such a response, please forward a copy of it to this office.

All appropriate personnel, particularly customer contact personnel, need to be aware of the responsibilities that the institution has to make this evaluation available to the public. Consequently, we suggest that your institution review internal procedures for handling CRA inquiries, including those pertaining to the evaluation and other contents of the CRA public file.

We strongly encourage the Board of Directors, senior management, and other appropriate personnel to review this document and to take an active interest and role in the CRA activities of your institution.

Sincerely,

Valorie Owen  
Senior Compliance Review Examiner

Enclosure

***Table of Contents***

**GENERAL INFORMATION ..... 1**

**INSTITUTION ..... 2**

    OVERALL RATING ..... 2

    SCOPE OF EXAMINATION ..... 2

    DESCRIPTION OF INSTITUTION ..... 3

    DESCRIPTION OF ASSESSMENT AREA ..... 4

    CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS ..... 5

    FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW ..... 8

**CRA RATING DEFINITIONS ..... 10**

## **General Information**

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of Highland Federal Savings & Loan Association (Highland or Institution). The Office of Thrift Supervision (OTS) prepared the evaluation as of May 16, 2011. OTS evaluates performance in assessment area(s) delineated by the institution rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. OTS rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 563e.

## ***Institution***

### **Overall Rating**

**INSTITUTION'S CRA RATING:** Highland is rated "Satisfactory record of meeting community credit needs."

At the preceding evaluation, conducted as of November 16, 2006, Highland was assigned a CRA rating of "Satisfactory record of meeting community credit needs". The Institution's performance is again based upon the "streamlined" standards for small savings associations.

During the current review period, Highland maintained a strong loan-to-deposit (LTD) ratio that averaged 82.9 percent, although this was lower than that of similarly sized savings associations regulated by the OTS.

Other measures of lending activity indicated that the Institution originated a strong volume of loan products, based upon its average asset size and in comparison to similarly sized OTS-regulated institutions. The Institution is a community savings association and offers a limited variety of lending products, including residential mortgage, nonresidential real estate mortgage, and loans secured by its own savings products.

The vast majority of the 1-4 family residential loan origination activity (94.4 percent) was secured by properties located within the assessment area. The Institution's overall record of lending to low- and moderate-income (LMI) borrowers within the combined assessment area is considered adequate compared to area demographics and to that of similar mortgage lenders within the combined assessment area, especially when taking the percentage of low-income families below the poverty level into consideration. The Institution's record of lending within LMI census tracts (CTs) was not evaluated since all of the assessment area's CTs are classified as middle-income.

### **Scope of Examination**

The time period reviewed for this evaluation will be from January 1, 2006, through December 31, 2010; however, the 2006 and 2007 data are too old to be meaningful. Products reviewed included purchase and refinance mortgage loans originated during this period.

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***Institution (continued)***

**Description of Institution**

Highland is a federally-chartered, mutual savings association with total assets of approximately \$66.8 million as of December 31, 2010, and is located in Crossville, Cumberland County, Tennessee, in the downtown business district. The Institution operates two offices in Crossville, and both are located in middle-income CTs.

The lobby of the Institution's main office is open for business from 9:00 a.m. to 3:30 p.m. Monday, Tuesday, and Thursday, from 9:00 a.m. until noon on Wednesday, and from 9:00 a.m. until 5:00 p.m. on Friday. The lobby is not open on Saturday. The drive-in windows at the main office are open from 8:00 a.m. to 4:00 p.m. Monday, Tuesday and Thursday, from 8:00 a.m. until 3:00 p.m. on Wednesday, from 8:00 a.m. until 5:00 p.m. on Friday, and from 8:00 a.m. until noon on Saturday. The main office also has a walk-up window that is open from 8:00 a.m. until 9:00 a.m. and 3:30 p.m. until 4:00 p.m. Monday Tuesday, and Thursday, from 8:00 a.m. until 9:00 a.m. and from noon to 3:00 p.m. on Wednesday, and 8:00 a.m. until 9:00 a.m. on Friday. The walk-up window is not open on Saturday.

The lobby at the branch office is open from 9:00 a.m. until 4:00 p.m. Monday, Tuesday, and Thursday, from 9:00 a.m. until 3:00 p.m. on Wednesday, and from 9:00 a.m. until 5:00 p.m. on Friday. This office is not open on Saturday. There are no drive-in windows at the branch office. The hours of operation are adequate and consistent with those of the Institution's competitors.

Highland operates Automated Teller Machines (ATM) at both locations, but neither ATM accepts deposits. The Institution issues ATM cards that permit its customers to access their accounts through other institutions' ATM network systems Plus, Cirrus, Visa, MasterCard, Discover, and American Express.

As a traditional savings association, the Institution has concentrated its operations in the origination of mortgage loans and the acceptance of deposits. Highland primarily engages in the origination of residential real estate loans. As of December 31, 2010, 54.9 percent of the Institution's total assets consisted of mortgage loans secured by permanent mortgages on single-family residences, multi-family dwellings, nonresidential property, home improvements, and mortgage-backed securities. In addition, 0.3 percent of total assets are invested in non-mortgage loans and 34.7 percent are invested in other securities.

***Institution (continued)***

Highland offers conventional fixed- and adjustable-rate first mortgages for the purchase, refinance, improvement, and construction of single-family residences, as well as non-residential mortgages. Loans secured by customer deposits are also available. The Institution retains the majority of its mortgage loan production in its own portfolio.

**Description of Assessment Area**

Highland’s assessment area consists of all of Cumberland County, Tennessee. The area is located in central Tennessee, approximately 135 miles east of Nashville, Tennessee. Cumberland County is not part of a Metropolitan Statistical Area (MSA). According to the 2000 Census, the area is comprised of eight CTs with income designations, all classified as middle-income. No tracts are classified as low-, moderate-, or upper-income. A middle-income CT is one with a MFI of at least 80.0 percent, and less than 120 percent of the MFI of a non-metropolitan area of a state or an MSA.

The 2000 Census data will be used for an analysis of Highland’s 2008, 2009, and 2010 mortgage lending activity.

The assessment area’s economy is diversified, but continues to be heavily dependent upon the coal mining industry. The area’s largest employers are Cumberland County Board of Education, Cumberland Medical Center, WalMart, Flowers Bakery, CoLinx, FICOSA North America, Aviagen North America, and Trade-A -Plane, as well as other medical, municipal, and educational systems.

A summary of certain demographic characteristics for the assessment area based upon 2000 Census data is as follows:

DEMOGRAPHICS OF CTs			FAMILY DISTRIBUTION	
CT Category	Population	Owner Occupied Housing Units	Income Category	Distribution of Families
Low	-0-	0.0%	Low	19.6%
Moderate	-0-	0.0%	Moderate	19.4%
Middle	46,802	100.0%	Middle	23.9%
Upper	-0-	0.0%	Upper	37.1%
<b>Total</b>	<b>46,802</b>	<b>100.0%</b>	<b>Total</b>	<b>100.0%</b>

***Institution (continued)***

The examiner's review of 2000 Census data disclosed the following additional information about the assessment area:

Total Population	46,802
Population 16 and older	37,933 (81.1%)
Population Over 65	9,615 (20.5%)
Total Housing Units	22,442
Owner-Occupied Housing Units	15,729 (70.1)
Rental Occupied Units	3,779 (16.8%)
1 - 4 Family Units	17,052 (75.9%)
Multi-Family Units	681 (3.0%)
Total Families	14,551
Families Below the Poverty Level	1,614 (11.1%)

The Institution encounters substantial competition from many other financial institutions within the assessment area. Specifically, as of June 30, 2010, the latest information available, a total of seven commercial banks and two savings associations, including Highland, maintained a total of 19 offices within the assessment area. This included institutions that are multi-state, regional, national, or larger institutions with several branches outside of the assessment area such as Regions Bank, Cumberland County Bank, U.S. Bank, and First National Bank of Tennessee. As of June 30, 2010, all institutions held approximately \$893.1 million in deposits within the assessment area. Highland held approximately 6.1 percent of the assessment area's total deposits.

Given Highland's resources, the examiner concludes that the assessment area is consistent with regulatory requirements.

**Conclusions with Respect to Performance Tests**

Loan-to-Deposit Ratio

Information compiled from the OTS's Thrift Financial Reports disclosed that Highland's LTD ratio averaged 82.9 percent over the review period. This ratio is lower than the average LTD ratio of 90.2 percent during this period for similarly sized savings associations regulated by the OTS.

Notwithstanding that the LTD ratio is lower than that of its peer group, the examiner concludes that the Institution's LTD ratio exceeds the standard for satisfactory performance for this criterion.

**Institution (continued)**

Lending within the Assessment Area

Highland was not subject to the Home Mortgage Disclosure Act (HMDA) for the review period but did maintain a loan/application register and captured data similar to that required by the HMDA. After reviewing these records, the examiner determined that the Institution originated 531 mortgage loans between January 1, 2008, and December 31, 2010. The examiner also determined that the majority of the originated mortgage loans were secured by property located within the assessment area as described below:

<b>LOAN APPROVALS/ORIGINATIONS DURING THE REVIEW PERIOD</b>				
<b>Approvals/Originations</b>	<b>Number</b>	<b>Pct. No.</b>	<b>Volume (000s)</b>	<b>Pct. of \$</b>
<b>Inside Assessment Area</b>	501	94.4%	\$54,529	94.5%
<b>Outside Assessment Area</b>	<u>30</u>	<u>5.6%</u>	<u>3,152</u>	<u>5.5%</u>
<b>Total</b>	<b>531</b>	<b>100.0%</b>	<b>\$57,681</b>	<b>100.0%</b>

Based upon the data referenced above, the examiner concludes that Highland's level of mortgage lending within the assessment area exceeds the standard for satisfactory performance for this particular criterion.

Lending to Borrowers of Different Income Levels

In order to evaluate Highland's record of lending to borrowers of different income levels for 2008 through 2010, family income levels were stratified as a percentage of the updated MFI for the non-metropolitan areas of Tennessee. The updated MFI figures, as provided by the Department of Housing and Urban Development, for the non-metropolitan areas of Tennessee are \$44,400, \$46,300, and \$46,400, respectively.

***Institution (continued)***

From information contained in the Institution’s records, the examiner compiled the following borrower income distribution statistics:

<b>Income Category</b>	<b>Percent of MFI</b>	<b>Number</b>	<b>No. Pct.</b>	<b>Volume (\$000s)</b>	<b>Pct. of \$</b>	<b>Distribution of Families</b>
<b>Low</b>	<50%	33	6.7%	1,909	3.6%	19.6%
<b>Moderate</b>	≥50-<80%	81	16.4%	6,019	11.2%	19.4%
<b>Middle</b>	≥80-<120%	137	27.7%	12,866	24.1%	23.9%
<b>Upper</b>	≥120%	<u>243</u>	<u>49.2%</u>	<u>32,667</u>	<u>61.1%</u>	<u>37.1%</u>
<b>Total</b>		<b>494*</b>	<b>100.0%</b>	<b>\$53,461</b>	<b>100.0%</b>	<b>100.0%</b>

\*Applicant income was not available for seven originations totaling approximately \$1.1 million.

As indicated above, the percentage of mortgage loans granted to low-income borrowers was well below the number of low-income families within the assessment area. However, Highland’s ability to originate mortgage loans to low-income borrowers may be influenced by family poverty levels. The examiner noted that according to the 2000 Census, approximately 56.6 percent of the low-income families residing within the assessment area have incomes below the poverty level (11.1 percent of all families living within the assessment area have incomes below the poverty level). The Institution’s level of mortgage lending to moderate-income borrowers was also lower than the percentage of moderate-income families residing within the assessment area.

Although not subject to HMDA, Highland’s overall record of lending to borrowers of different income levels was also compared to the lending activity of other lenders subject to the CRA that originated HMDA reportable loans within the combined assessment area, focusing upon LMI borrowers. In accordance with the HMDA, creditors with total assets greater than \$250 million and a branch office located within an MSA, must submit certain information regarding mortgage loans for purchase, refinance, and home improvement purposes for all property locations. This information was derived from the 2008 and 2009 HMDA Aggregate information, the latest available.

Based upon the data shown below for 2008 and 2009, Highland’s combined record of lending to LMI borrowers was lower than that of other lenders within the assessment area. However, both were below the assessment area’s LMI demographics.

***Institution (continued)***

***2008/2009 Aggregate HMDA Borrower Income Analysis for Mortgage Loan Originations of similar products by other lenders within the Assessment Area***

<b>Income Category</b>	<b>Percent Of MFI</b>	<b>Highland Fed Percent of No.</b>	<b>Other Lenders Percent of No.</b>	<b>Distribution Of Families</b>
<b>Low</b>	<50%	7.0%	6.5%	19.6%
<b>Moderate</b>	≥50-<80%	17.4%	23.1%	19.4%

The examiner determined that Highland’s overall level of lending to borrowers of different income levels meets the standard for satisfactory performance for this criterion.

Geographic Distribution of Loans

As previously discussed, the assessment area is composed solely of middle-income CTs. Therefore, no analysis was performed with respect to the geographic distribution of Highland’s mortgage loan originations since the results would not have been meaningful. Accordingly, this evaluation does not include a rating for the geographic distribution of the Institution’s mortgage lending activity, and the examiner did not consider this performance factor in determining the Institution’s overall CRA rating.

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

Record of Compliance with Anti-discrimination Laws and Regulations

A sample of loan application files was reviewed at the Institution’s most recent compliance examination to determine the Institution’s level of compliance with anti-discrimination laws and regulations, including the OTS Nondiscrimination Regulations; the Equal Credit Opportunity Act and its implementing regulation, Regulation B; and the Fair Housing Act. That review disclosed no evidence of prohibited discriminatory lending practices or other illegal credit practices, and it appeared that all applicants were treated consistently and in accordance with the Institution’s written underwriting guidelines.

***Institution (continued)***

Response to Community Complaints

No complaints concerning Highland's performance in meeting the credit needs of the assessment area were received since the preceding evaluation.

## **CRA Rating Definitions**

There are four separate and distinct CRA assessment methods set forth in the CRA: the lending, investment, and service tests for large, retail institutions; the streamlined examination method for small institutions; the community development test for wholesale and limited purpose institutions; and the strategic plan option for all institutions. OTS will assign an institution one of the four assigned ratings required by Section 807 of the CRA:

1. "Outstanding record of meeting community credit needs."
2. "Satisfactory record of meeting community credit needs."
3. "Needs to improve record of meeting community credit needs."
4. "Substantial noncompliance in meeting community credit needs."

OTS judges an institution's performance under the test and standards in the rule in the context of information about the institution, its community, its competitors, and its peers. Among the factors to evaluate in an examination are the economic and demographic characteristics of the assessment area(s); the lending, investment, and service opportunities in the assessment area(s); the institution's product offerings and business strategy; the institution's capacity and constraints; the prior performance of the institution; in appropriate circumstances, the performance of a similarly situated institution; and other relevant information. An institution's performance need not fit each aspect of a particular rating profile in order to receive that rating, and exceptionally strong performance with respect to some aspects may compensate for weak performance in others. The institution's overall performance, however, must be consistent with safe and sound banking practices and generally with the appropriate rating profile. In addition, OTS adjusts the evaluation of an institution's performance under the applicable assessment method in accordance with §563e.21 and §563e.28, which provide for adjustments on the basis of evidence of discriminatory or other illegal credit practices.