



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

April 24, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

cfsbank
Charter Number 703866

101 McKean Avenue, Charleroi, PA 15022

Office of the Comptroller of the Currency

Corporate One Office Park, Bldg. 2, 4075 Monroeville Blvd, Suite 300 Monroeville, PA
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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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors supporting the institution's rating include:

- cfsbank's level of lending, as indicated by the loan-to-deposit ratio when compared to peers, is considered reasonable;
- A majority of the Bank's primary loan products were originated within its assessment area;
- The distribution of home loans meets the standard of reasonable distribution among borrowers of different income levels given the demographics of the Bank's assessment area, local economic conditions, and significant competition within this area for home lending;
- The geographic distribution of loans meets the standard of reasonable distribution in the low- and moderate-income tracts considering the location of low-income census tracts and market competition within the assessment area; and
- cfsbank's CD activities demonstrate adequate responsiveness to the credit needs of its AA through CD loans, qualified donations/investments, and services, when considering the Bank's capacity, performance context, and the availability of CD opportunities.

Scope of Examination

cfsbank ("CFSB" or "the Bank"), also formerly known as Charleroi Federal Savings Bank, is headquartered in Charleroi, Pennsylvania (PA) and was evaluated using Intermediate Small Bank (ISB) Community Reinvestment Act (CRA) examination procedures, which includes a lending test (LT) and a community development (CD) test. The LT evaluates the Bank's record of meeting the credit needs of its assessment areas (AAs) through its lending activities. The CD test evaluates the Bank's responsiveness to CD needs in its AAs through CD lending, qualified donations and/or investments, and services.

The evaluation period for the LT covers the Bank's performance from January 1, 2014 through December 31, 2016, as this timeframe is representative of CFSB's lending strategy since the previous CRA Public Evaluation (PE). The evaluation period for the CD test is from January 27, 2014, the date of the prior CRA PE, through April 24, 2017.

As reported via the December 31, 2016 Uniform Bank Performance Report (UBPR), residential lending constitutes the majority of the Bank's lending operations, representing more than 80 percent of the overall loan portfolio. As such, CFSB's primary loan product are residential mortgages, including home purchase, home refinance, and home

improvement loans. CFSB reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). As part of our evaluation, we tested the Bank's HMDA data for residential real estate loans originated and/or purchased and determined the data to be reliable. Our primary comparator was the aggregate performance of peer lenders within the AAs subject to HMDA reporting requirements.

Description of Institution

CFSB is a federally chartered stock savings bank that as of December 31, 2016, reported total assets of \$510 million. CFSB is a wholly owned subsidiary of Charleroi Financial Mhc (the holding company), and operates nine full-service branches within the counties of Butler, Fayette, Washington, and Westmoreland. The main office is headquartered in Washington County, which also contains an additional four branches. Of the remaining four branches, two are located within Westmoreland County, one is located in Butler County, and one is located in Fayette County.

Table 1 reflects CFSB's branch locations, geographic income classification, and hours of operations as of April 24, 2017:

Table 1: cfsbank Branches April 24, 2017				
Count	Branch	County	Geographic Income Level	Hours of Operation
1	Bentleyville	Washington	Moderate	Mon-Thurs 9AM to 4PM Friday 9AM to 6PM
2	Charleroi	Washington	Moderate	Monday 9AM to 6PM Tues-Fri 9AM to 4PM
3	Connellsville	Fayette	Moderate	Mon-Thurs 9AM to 4PM Friday 9AM to 6PM
4	Hempfield	Westmoreland	Upper	Mon-Thurs 9AM to 4PM Friday 9AM to 6PM
5	Monongahela	Washington	Moderate	Mon-Thurs 9AM to 4PM Friday 9AM to 6PM
6	Peters Township	Washington	Upper	Mon-Thurs 9AM to 4PM Friday 9AM to 6PM
7	Rostraver	Westmoreland	Middle	Mon-Wed 9AM to 4PM Thursday 9AM to 6PM Friday 9AM to 4PM
8	Seven Fields	Butler	Upper	Mon-Thurs 9AM to 4PM Friday 9AM to 6PM
9	Washington	Washington	Upper	Mon-Thurs 9AM to 4PM Friday 9AM to 6PM Saturday 9AM to Noon

Data obtained from cfsbank's branch hours of operations listed at the Bank's website: www.cfsbank.com.

CFSB continues to operate primarily as a traditional residential mortgage lender. Residential products include mortgage loans for the purchase, refinance, and construction of one-to-four and multifamily households. Consumer products offered include home equity loans and lines of credit, as well as consumer secured and unsecured loans. Commercial products are offered to business customers and include term loans, lines of credit, commercial mortgages, and credit cards. Detailed information concerning CFSB's product offerings to both businesses and consumers can be located via the Bank's internet website, www.cfsbank.com.

Table 2 reflects the composition of CFBSB's loan portfolio as of December 31, 2016:

Table 2: Loan Portfolio Summary by Loan Product December 31, 2016	
Loan Category	% of Total Loans and Leases
Residential Mortgage Loans	80%
Commercial Real Estate	11%
Commercial and Industrial	4%
Consumer Loans	<3%
Construction and Development	<2%
Home Equity	<2%
Multi Family (5+ units)	<1%
Total	100.00%

Data obtained from the Uniform Bank Performance Report for the quarter ending December 31, 2016, Page 7A.

The Bank has no financial or legal impediments that in meeting the credit needs of its surrounding community. CFBSB was rated "Satisfactory," using ISB procedures, at the last CRA PE dated January 27, 2014.

Description of Assessment Area

The CRA requires banks to define the AAs in which they will be evaluated. Since the previous CR PE, the Bank continues to operate a single AA within the state of PA, specifically within the Pittsburgh, PA Metropolitan Statistical Area (MSA) (#38300), and comprised of whole and contiguous political subdivisions (counties). Consequently, we performed a full scope review of this AA so to evaluate CFSB's record of meeting the credit needs of its community through lending practices and responsiveness to CD needs through qualified lending, donations/investments, and services.

Full Scope AA

cfsbank functions within a competitive financial services market and faces significant competition from large regional and nationwide financial institutions located within the full scope AA. As of the June 30, 2016 Federal Deposit Insurance Corporation (FDIC) Summary of Deposits Market Share Report, CFSB ranks 16th out of 52 deposit taking institutions in the Pittsburgh, PA MSA with less than one percent share of the overall market. Primary competitors include PNC Bank, National Association, ranked first with 48.57 percent deposit market share; The Bank of New York Mellon, ranked second with 8.98 percent; Citizens Bank of Pennsylvania, ranked third with 7.87 percent; BNY Mellon, National Association, ranked fourth with 7.35 percent; First National Bank of Pennsylvania, ranked fifth with 4.32 percent; and Dollar Bank, Federal Savings Bank, ranked sixth with 3.33 percent. Of the remaining 46 competitors, no institution individually maintains more than three percent deposit market share, indicative of the high level of competition for deposits within CFSB's market.

The Bank's AA contains 641 CTs, including: 45 low-income tracts, 158 moderate-income tracts, 282 middle-income tracts, and 142 upper-income tracts. Within the AA, 14 CTs have not been assigned an income level classification as of the 2010 US Census. The 2010 US Census indicates that approximately 38 percent of families within the AA are considered low- or moderate-income and 12 percent of the households are below the poverty line.

Demographic information for the full scope AA is further detailed in the table below:

Demographic Information for Full Scope Area: cfsbank_AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	641	7.02	24.65	43.99	22.15	2.18
Population by Geography	2,116,805	4.41	20.45	46.15	28.54	0.45
Owner-Occupied Housing by Geography	627,241	2.29	18.55	48.93	30.23	0.00
Business by Geography	148,365	4.53	15.34	45.78	33.69	0.66
Farms by Geography	3,401	1.38	13.35	56.48	28.70	0.09
Family Distribution by Income Level	551,564	20.26	17.66	21.61	40.47	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	209,195	6.71	31.24	46.57	15.48	0.00
Median Family Income		62,376	Median Housing Value		125,959	
FFIEC Adjusted Median Family Income for 2016		70,600	Unemployment Rate (BLS: Pittsburgh, PA MSA a/o Dec. 31, 2016)		5.1%	
Households Below Poverty Level		12%				

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source: 2010 US Census data and 2016 FFIEC updated MFI.

The most recent economic indicators as of January 2017 illustrate that the Pittsburgh, PA MSA continues to recover from pre-recession levels, although at a slower pace when compared to the overall recovery of the state of PA. Despite significant job growth within the technology and health care industry occurring during 2016, manufacturing and natural resource production underperformed. These losses, coupled with increasing year over year housing costs have caused the recent business cycle expansion to contract and now be considered at risk of coming undone. Additionally, state fiscal problems, an aging and contracting workforce, a declining retail industry as consumers shift to e-commerce alternatives, and recent extraction taxes imposed on natural gas production dampens growth prospects, with the Pittsburgh, PA MSA expected to underperform the nation over the next five years. The state of PA unemployment rate continues to improve from a recession high of 8.7 percent during February – April of 2010, with a reported unemployment rate of 5.4 percent as of December 2016. Within the Pittsburgh, PA MSA, the reported unemployment rate as of December 2016 was 5.1 percent. Both unemployment rate indicators lag the national unemployment rate of 4.7 percent as of the same date. Major employers within the Pittsburgh, PA MSA as indicated by the Moody's Analytics January 2017 Pittsburgh, PA report include: University of Pittsburgh Medical Center, University of Pittsburgh, Giant Eagle Incorporated, PNC Financial Services Group Incorporated, West Penn Allegheny Health System, The Bank of New York Mellon, and Wal-Mart Stores Incorporated.

Competition within just the Bank's AA is even more significant. As of the June 30, 2016 FDIC Summary of Deposit Market Share report for the Bank's AA, consisting solely of the counties of Allegheny, Butler, Fayette, Washington, and Westmoreland, CFSB was ranked 16th out of 45 deposit taking institutions whom maintain a branch presence in this market area with less than one percent market share. Deposit market share competition within CFSB's AA include: PNC Bank, National Association (49.73 percent), The Bank of New York Mellon (9.24 percent), Citizens Bank of Pennsylvania (7.62 percent), BNY Mellon, National Association (7.55 percent), and First National Bank of Pennsylvania (4.09 percent). Leading lenders continue to account for the majority of deposits in this market area, with the top five lenders accounting for approximately 78 percent of the market. Outside of the top five lenders, no institution individually accounts for more than four percent of the total market among 40 eligible institutions.

Lastly, as part of performance context, we considered the disparity between the median income of families and the median cost of housing within the Bank's AA, as well as general demographic factors, and the impact this has on home mortgage lending opportunities and demand. The local housing market within the full scope AA continues to appreciate, as the median housing value of \$126,000 is significant when compared to the FFIEC adjusted median family income of \$70,600 for 2016. This means that that a low-income family in this local market area earns no more than \$35,293 annually, and would have difficulty in qualifying for home loans within the AA. Additionally, a moderate-income family would also encounter difficulty qualifying for a home loan with an income range of at least \$35,294 but less than \$56,473. Furthermore, according to the 2010 US Census data for this AA, 63 percent of total housing units are owner-occupied, 18 percent report owners over the age of 65, 21 percent report retired owners, and 34 percent derive income from social security. These demographic factors highlight the AA's aging population which corresponds to a decreased demand for home loans. Consequently, these demographic and economic factors within CFSB's AA limits both the opportunity for and demand of residential mortgage loans.

We reached out to a local community contact for an assessment of the local market area and the community development needs that are most needed for low- and moderate-income and at risk communities. We contacted a local organization, the Redevelopment Authority of Washington County, PA for comment but was unable to speak directly with a contact. Based upon our review of the local market area and assessment of the major local community development organizations, we identified affordable housing and economic development as the primary needs.

Conclusions with Respect to Performance Tests

LENDING TEST

The Bank's performance under the LT is rated **Satisfactory** given the credit needs of the AA and significant market competition. The Bank's net loan-to-deposit ratio is reasonable and the majority of loans are originated inside the established AA. Given performance context, the distribution of loans meets the standard for satisfactory performance among individuals of different income levels and the geographic distribution of loans meets the standard for satisfactory performance among low- and moderate-income geographies.

Loan-to-Deposit Ratio

The Bank's net loan-to-deposit ratio is reasonable given the Bank's size, financial condition, and AA credit needs. CFSB's quarterly net loan-to-deposit ratio has averaged 61 percent over the last 13 quarters since the previous CRA evaluation dated January 27, 2014. Over this period, the loan-to-deposit ratio ranged from a quarterly low of 59 percent to a high of 64 percent. CFSB's loan-to-deposit ratio is comparable to the national peer group of like institutions grouped by similar size and location, which averaged 66 percent over the same period.

Lending in Assessment Area

A majority of CFSB's primary loan products were made inside the Bank's AA. Approximately 94 percent of loans were originated and/or purchased within the AA.

Table 3 details the Bank's lending activities within the AA buy number and dollar amount of loans.

Loan Type	Number of Loans					Dollars of Loans (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase Loans	226	92.24	19	7.76	245	\$44,537	91.14	\$4,328	8.86	\$48,865
Home Refinance Loans	162	95.86	7	4.14	169	\$24,661	95.28	\$1,223	4.72	\$25,884
Home Improvement Loans	98	96.08	4	3.92	102	\$4,870	95.77	\$215	4.23	\$5,085
Totals	486	94.19	30	5.81	516	\$74,068	92.78	\$5,766	7.22	\$79,834

Source: 2014 - 2016 HMDA Data based on 2010 Census data.

Lending to Borrowers of Different Incomes

The distribution of home loans meets the standard for reasonable distribution among borrowers of different income levels given the demographics of CFSB's AA, local economic conditions, and significant competition within this area for home lending.

The percentage of home mortgage loans made to both low- and moderate-income borrowers are all significantly lower when compared to the percentage of peer aggregate lending data, the Bank's primary comparator.

The Bank's performance is considered satisfactory given the demographic and competitive factors within the AA previously discussed. Furthermore, according to the 2015 Peer Mortgage Market Share data, home lending within the Bank's AA is highly saturated with 491 competing lenders, the top 10 of which account for approximately 47 percent of the total market. Top lenders include national banking institutions and mortgage lenders: Wells Fargo Bank, National Association, JPMorgan Chase Bank, National Association, PNC Bank, National Association, and Quicken Loans. No institution outside of the top 10 lenders maintain more than two percent market share. Within CFSB's AA, the Bank is ranked 79th out of the population of 491 with less than one percent market share. Competition for just low- and moderate-income borrowers is also highly competitive. As illustrated by the 2015 Peer Mortgage Market Share data when filtered to only consider low- and moderate-income applicants, there are 292 competing lenders within this market, the top 11 of which account for approximately 52 percent of the total market. Within the AA, for low- and moderate-income borrowers, CFSB is ranked 90th out of the population of 292 competing lenders with less than one percent market share.

Table 4 illustrates the distribution of home loans to borrowers of different income levels within the Bank's AA.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of Agg. Data	% of Loans	% of Agg. Data	% of Loans	% of Agg. Data	% of Loans	% of Agg. Data	% of Loans
Home Purchase	9.11	2.67	23.32	13.78	24.26	23.56	43.31	60.00
Home Refinance	7.41	4.49	17.46	13.46	24.37	30.77	50.76	51.28
Home Improvement	11.95	5.10	20.22	9.18	22.92	24.49	44.91	61.22

Source: CFSB HMDA data January 1, 2014 – December 31, 2016, 2010 US Census data.

Geographic Distribution of Loans

The geographic distribution of loans meets the standard for satisfactory distribution in the low- and moderate-income tracts considering the location of low-income CTs and market competition within the AA. We found no conspicuous gaps or areas of low activity in the Bank's lending patterns.

The Bank made no home purchase or refinance loans in low-income geographies within the AA during our evaluation's time period. The percentage of home purchase and refinance loans made in moderate-income geographies significantly exceeds the percentage of peer aggregate lending data, the primary comparator. The percentage of home improvement loans made in low- and moderate-income geographies exceeds and significantly exceeds the percentage of peer aggregate lending data, respectively.

For additional performance context we considered the proximity of CFSB's branches to low-income geographies as designated by the 2010 US Census data and to account for the lack of lending to low-income geographies. Among the Bank's 641 CTs which compose its AA, 45 CTs or 7.02 percent are designated as low-income tracts. Of the 45 CTs, 37 are located within central Allegheny County, where the Bank does not have a branch presence. Allegheny County, which is contiguous to the other four counties comprising the Bank's AA, is a highly banked market which includes the City of Pittsburgh located in the center of the county. According to the June 30, 2016 FDIC Deposit Market Share report for Allegheny County, PNC Bank, National Association is the leading deposit making institution accounting for approximately 54 percent of the total market among 33 competitors. Furthermore, the top five lenders within this county account for approximately 84 percent of the total deposit market, highlighting the barriers which inhibit CFSB's opportunity to lend to low-income geographies.

Despite there being no branch presence within Allegheny County, the Bank does operate two branches within the counties of Butler and Washington which are in closest proximity to Allegheny County where the majority of the AA's low-income tracts are located. Within Butler County, the Bank maintains a branch at 101 Highpointe Drive in Seven Fields, PA 16046, which is located 25 miles or a 35-45 minute car drive from Main Street in Pittsburgh, PA. Within Washington County, the Bank maintains a branch at 622 East McMurray Road in McMurray, PA 15317, which is located 30 miles or a 45-50 minute care drive from Main Street in Pittsburgh, PA. According to 2015 Peer Mortgage Market Share data when filtering for just low-income CTs within Allegheny County, there are 114 competing lenders within this market area, the top of which account for approximately 51 percent of the total market share. Given the large number of readily accessible banking institutions located within these geographies, it is unlikely for potential borrowers to travel outside of the county when applying for home mortgage loans. Based upon these performance context factors, we consider the Bank's geographic distribution of loans to be satisfactory.

Table 5 illustrates the distribution of home loans to borrowers of different income levels within the Bank's AA.

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of Agg. Data	% of Loans	% of Agg. Data	% of Loans	% of Agg. Data	% of Loans	% of Agg. Data	% of Loans
Home Purchase	1.25	0.00	12.43	16.37	44.62	62.83	41.71	20.80
Home Refinance	1.05	0.00	11.37	25.16	45.75	62.89	41.83	11.95
Home Improvement	2.40	3.06	17.85	27.55	48.92	53.06	30.82	16.33

Source: CFSB HMDA data January 1, 2014 – December 31, 2016, 2010 US Census data.

Responses to Complaints

There were no CRA complaints received by the Bank or the agency since the prior examination regarding performance in meeting the credit needs of CFSB's established AA.

COMMUNITY DEVELOPMENT TEST

The Bank's performance under the CD test is rated **Satisfactory**. CFSB's CD activities demonstrate adequate responsiveness to the credit needs of its AA through CD loans, qualified donations/investments, and services, when considering the Bank's capacity, performance context, and the availability of CD opportunities.

Number and Amount of Community Development Loans

The Bank originated four loans totaling approximately \$6.43 million during the evaluation period that qualified as CD loans, exhibiting adequate responsiveness to the credit needs of its AA. The CD loans made by the Bank provided financing for organizations that revitalize low- or moderate-income geographies, and/or provided community services targeted towards low- and moderate-income individuals. While the actual volume of CFSB's lending was higher, only qualified loans that met the definitions for community development were recorded.

The highlights of the Bank's CD loans are as follows:

- A \$5 million loan made to provide a revolving line of credit to a local municipality to be used for the revitalization of the community's infrastructure. The loan will provide interim financing for water related capital improvements to occur during 2017 and 2018;

- A \$629 thousand loan made to provide working capital to a local health care facility that provides community services throughout Washington County. This health care facility is located in a moderate-income CT and provides "charity" care to qualified patients as well as free and below cost services for the community;
- A \$500 thousand loan made to provide a revolving line of credit to a local municipality to be used for the revitalization of the community's infrastructure. The loan will provide interim financing of sewer related capital improvements to occur in 2017; and
- A \$300 thousand loan to fund the reconstruction and renovation of an existing hotel into a commercial property with office space on the first floor and apartments located on the second floor. The commercial property is located in a moderate-income CT and provides jobs and apartment housing for low- and moderate-income individuals.

Number and Amount of Qualified Donations/Investments

The Bank's level of CD donations and investments is adequate, considering the Bank's capacity, significant local market competition, and the availability of CD opportunities. Qualified donations and investments during our evaluation period totaled approximately \$49 thousand. This is comprised of eight CD donations to seven different community development organizations located within the Bank's AA. The majority of these donations were targeted towards organizations that provide community services and affordable housing opportunities targeted towards low- and moderate-income individuals located within the Bank's AA. While the actual level of donations made was higher, these donations met the definition of community development.

The highlights of the Bank's CD donations:

- A \$32,150 donation was made to a local organization's impact fund to assist victims of disaster relief, provide care services for the elderly, and to improve the standard of living for individuals with disability;
- A \$6 thousand donation was made to a local community foundation which awards scholarships and grants to children of qualifying low- and moderate-income families;
- A \$5 thousand donation was made to a community organization to provide funds so that the local school districts can purchase academic supplies for their students. The majority of students within these school districts are from low- and/or moderate-income households located within the AA; and
- A \$2 thousand donations were made to a community outreach organization which coordinates public and private resources to address the sources of poverty located within the Bank's AA. Beneficiaries must qualify by being considered below the

poverty line, have a household net worth of less than \$10 thousand, and be welfare eligible.

Extent to Which the Bank Provides Community Development Services

CFSB has provided an adequate level of CD services throughout its AA. The Bank's delivery systems in their AA are accessible to geographies and individuals of different income levels throughout the region. The Bank has nine full-service branches within their AA, four of which are located in moderate-income CTs.

Four members of CFSB senior management team lent their experience as professional bankers to eight different organizations that promote community service, economic development, and revitalize the local communities based within the Bank's AA. In addition, CFSB sponsors a "Financial Literacy Team" which is composed of bank employees who provide financial literacy seminars and counseling on different areas of banking.

Responsiveness to Community Development Needs

The Bank's CD performance through loans, donations/investments, and services demonstrates adequate responsiveness when considering CFSB's capacity, AA credit needs, and the availability of CD lending opportunities.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c) and 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. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development (HUD), and the Consumer Financial Protection Bureau (CFPB).

The OCC did not identify evidence of discriminatory or other illegal credit practices with respect to this institution.

The OCC will consider any evidence of discriminatory or other illegal credit practices relative to this institution that other regulators may provide to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information provided concerns activities that occurred during the evaluation period addressed in this performance evaluation.