



PUBLIC DISCLOSURE

September 18, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Winchester Federal Bank
Charter Number 703267
57 South Main Street
Winchester, Kentucky 40391

Office of the Comptroller of the Currency
10200 Forest Green Boulevard, Suite 501
Louisville, Kentucky 40223

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, and should not 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.

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Overall CRA Rating

The Institution is rated: **Satisfactory**.

Winchester Federal Bank (WFB or Bank) has a **satisfactory** record of meeting community credit needs. In reaching our conclusion, primary weight was given to the geographic distribution criterion. The satisfactory assessment is based on the following:

The Lending Test is rated: **Satisfactory**.

The major factors that support the rating for Winchester Federal Bank (WFB or Bank) include the following:

- WFB's loan-to-deposit ratio (LTD) exceeded standards for satisfactory performance.
- WFB originated a majority of loans inside the assessment area (AA).
- WFB originated a reasonable distribution of loans to borrowers of different incomes.
- The geographic distribution of residential loans throughout the AA, including moderate-income census tracts, was reasonable.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor

vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Description of Institution

Winchester Federal Bank (WFB or Bank) is a \$139 million intrastate financial institution headquartered in Winchester, Kentucky. WFB is wholly owned by Winfirst Financial Corporation, a \$145 million single thrift holding company located in Winchester, Kentucky. As of this evaluation, WFB had two locations in Winchester which were accessible to all segments of its community. Both were equipped with drive-up facilities. The branch also has an automated teller machine.

WFB is a full-service lender offering traditional banking products and services. While WFB's primary loan product is residential real estate loans (representing 71 percent of total loans as of June 30, 2017), the Bank also offers commercial real estate, commercial, agricultural, and consumer loans. Deposit products include personal checking and savings, money market, business checking, NOW accounts, and certificates of deposit.

Competition from other financial institutions is strong. The Bank's competitors include several community banks and branches of large regional banks. According to the Federal Deposit Insurance Corporation (FDIC) as of June 30, 2016, 10 banks with 16 offices operated within the AA. These branches held a combined total of \$689 million in deposits. WFB ranked third with 13.8 percent market share.

As of June 30, 2016, the Bank reported \$119 million in outstanding loans, or 81 percent of total assets. Tier 1 capital was \$17.9 million. The loan portfolio consisted of \$3.2 million in construction and development loans, \$1.5 million in farmland, \$85 million in residential, \$10.8 million in multifamily, \$.2 million in agricultural production, \$16.9 million in commercial real estate, \$.6 million in commercial, \$.3 million in consumer, and \$.9 million in other loans.

There were no legal or financial circumstances that impacted WFB's ability to meet the credit needs of its community. The last CRA evaluation was performed by the Office of the Comptroller of the Currency (OCC) on May 20, 2013. WFB received a Satisfactory rating.

Scope of the Evaluation

Evaluation Period/Product Evaluated

We evaluated WFB's CRA performance using Small Bank procedures which assess an institution's record of meeting the credit needs of its AA through lending activities. Based on both the number and dollar volume of loan origination data supplied by the Bank, the primary lending product was residential real estate loans. Residential loans represented 91 percent of the number and 88 percent of the dollar volume of loan originations in 2015 and 2016. As WFB's business strategy and lending products did not significantly change since the prior examination, the lending test used reliable data reported in the 2015 and 2016 HMDA loan application registers (LAR).

Data Integrity

We relied on the Bank's 2015 and 2016 HMDA-LAR reports for this evaluation.

Selection of Area for Full-Scope Review

WFB has one assessment area, which consists of Clark County, Kentucky in its entirety. Refer to Appendix B for a profile of the community. We completed a full-scope review of this assessment area. Refer to the table in Appendix A for more information.

Ratings

The Bank's overall rating is based on the volume of residential loan originations in the AA. As local competition offer government-based programs to low- and moderate-income borrowers WFB does not, our analysis placed more weight on the geographic distribution criterion.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank'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, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

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

Conclusions with Respect to Performance Tests

LENDING TEST

WFB’s performance under the lending test is Satisfactory.

- The LTD ratio exceeded standards for satisfactory performance.
- WFB originated a majority of loans inside the AA.
- WFB originated a reasonable distribution of loans to borrowers of different incomes.
- The geographic distribution of residential loans throughout the AA, including moderate-income CTs, was reasonable.

Loan-to-Deposit Ratio

WFB’s average LTD ratio exceeded standards for satisfactory performance given the Bank’s size, financial condition, funding makeup, and the credit needs of its AA. The Bank’s LTD ratio averaged 126.1 percent over the 17 quarters since the last CRA examination, with a quarterly high of 132.9 percent and quarterly low of 116.1 percent. WFB ranked first among a total of eight similarly-situated banks serving its AA. The other seven banks had average LTD ratios of 81.8 percent, ranging from 57.0 percent to 98.8 percent over the same 17 quarters.

Lending in Assessment Area

WFB originated a majority of loans inside the AA. The Bank originated 58.7 percent of residential loans, by number, in the AA. The following table details WFB’s lending within the AA by number and dollar amount of loans originated during the evaluation period.

Table 1 - Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	94	58.7	66	41.3	160	17,096	59.6	11,568	40.4	28,664

Source: 2015 and 2016 HMDA LARs.

Lending to Borrowers of Different Incomes

WFB had a reasonable distribution of loans to low-and moderate-income borrowers. The Bank originated 11.8 percent of residential loans to low-income borrowers and 18.4 to moderate-income borrowers. Performance was below the 2015 peer aggregate percentages to low-income and moderate-income borrowers of 16.1 and 27.5 percent, respectively (Note: 2016 data was not yet available for comparison purposes). There are several factors impacting the Bank’s ability to lend to low- and moderate-income borrowers. WFB does not offer government-based lending programs which are geared

towards first-time and low- to moderate-income borrowers. However, management assists customers desiring low down payment options by referring them to the local branch of a regional institution offering Federal Housing Administration (FSA) and United States Department of Veterans Affairs (VA) loans. Additionally, occupied 1-4 family rental units comprised 32.3 percent of total housing units in the AA, which limits home loan lending opportunities. Furthermore, 16 percent of AA families are living below the poverty level, which impacts their ability to purchase or maintain a home (2016 median home value is \$134,166).

Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	16.1	11.8	27.5	18.4	24.6	31.6	31.8	38.2

Source: 2015 and 2016 HMDA LARs and 2015 Peer Mortgage Data.

Geographic Distribution of Loans

The geographic distribution of loans among moderate-income CTs was reasonable (Note: There were no low-income CTs in the AA during the evaluation period). The Bank originated 40.4 percent of residential loans to borrowers in the moderate-income CTs, which was above the peer average of 33.8 percent. Moderate-income geographies accounted for forty percent of the CTs in the AA.

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential	0	0	33.8	40.4	41.3	31.9	24.9	27.7

Source: 2015 and 2016 HMDA LARs and 2015 Peer Mortgage Data.

Responses to Complaints

WFB did not receive any written complaints regarding its CRA performance during the evaluation period.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test: January 1, 2015 to December 31, 2016	
Financial Institution		Products Reviewed
Winchester Federal Bank (WFB) Winchester, Kentucky		Residential mortgage loans
Affiliate(s)	Affiliate Relationship	Products Reviewed
None		
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Clark County, Kentucky	Full-Scope	

Appendix B: Community Profiles for Full-Scope Areas

Clark County, Kentucky

Demographic Information for Full-Scope Area: Clark County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	10	0.0	40.0	40.0	20.0	0.0
Population by Geography	35,613	0.0	44.6	37.9	17.5	0.0
Owner-Occupied Housing by Geography	9,480	0.0	34.2	43.3	22.5	0.0
Businesses by Geography	1,948	0.0	42.9	40.7	16.4	0.0
Farms by Geography	122	0.0	21.3	51.6	27.1	0.0
Family Distribution by Income Level	10,365	25.9	18.5	25.3	30.3	0.0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	4,593	0.0	58.6	31.7	9.7	0.0
Median Family Income = \$63,242 HUD Adjusted Median Family Income for 2016 = \$66,100 Households Below the Poverty Level = 16%			Median Housing Value = \$134,166 Unemployment Rate = 4.2%			

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2010 United States (U.S.) Census and 2016 HUD updated MFI.

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

According to the 2010 U.S. Census, the total population of the AA was 35,613. The county is located in the Lexington-Fayette Metropolitan Statistical Area. Clark County is divided into 10 CTs, with no low-income CTs, four moderate-income CTs, four middle-income CTs, and two upper-income CTs.

As of June 30, 2016, Clark County's unemployment rate was 4.2 percent, slightly lower than the state and national unemployment rates of 4.5 and 4.7 percent, respectively. Major employers were Catalent Pharma Solutions (450 employees), Amzn Wacs, Inc. (400 employees), Leggett & Platt, Inc. (350 employees), and East Kentucky Power cooperative, Inc. (300 employees).

We performed one community contact with an affordable housing organization in the AA. The contact identified a need for more affordable housing units in Winchester but noted there is currently no new construction due to the weak local economy.